Financial History

The magazine of the Museum of American Finance

"Worth Its Weight: Gold from the Ground Up" Exhibit Opens

Berkshire Hathaway 50th Anniversary

Digital Gold: Reinventing Money in the 21st Century

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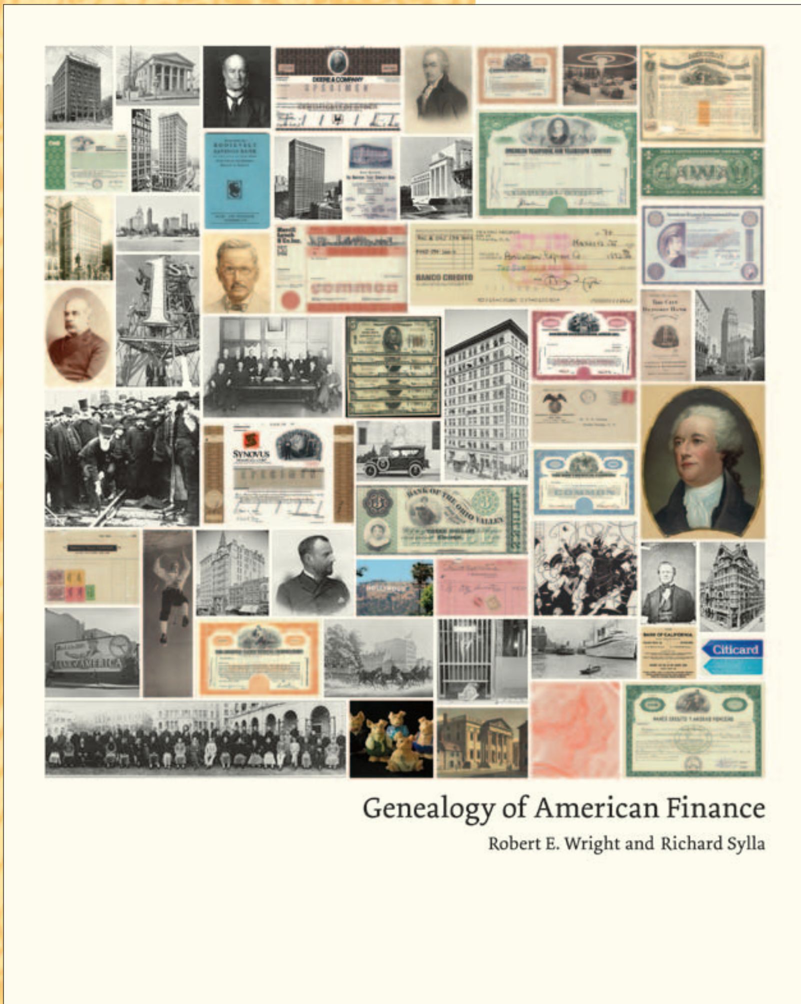

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Genealogy of American Finance

By Robert E. Wright and Richard Sylla

Foreword by Charles M. Royce

"*Genealogy of American Finance* is a treasure trove of information on American banking and its history, in an unusual—and unusually useful—format."

—*John Steele Gordon, author of* Empire of Wealth

An immersive history of 50 major American banks and their transformation of the nation into a leading world power.

In this gorgeously illustrated hardcover book—published by the Museum of American Finance and Columbia Business School Publishing—readers learn how 50 financial corporations came to dominate the US banking system, shaping the nation's political, social and economic growth along the way. A story that spans more than two centuries of war, crisis and exciting promise, this account reminds readers that American banking was never a fixed enterprise but has evolved in tandem with the fits and starts of the country. A key text for navigating the complex terrain of American finance, this volume draws a fascinating family tree for projecting the future of a nation.

MU$EUM OF AMERICAN FINANCE

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MU$EUM OF AMERICAN FINANCE

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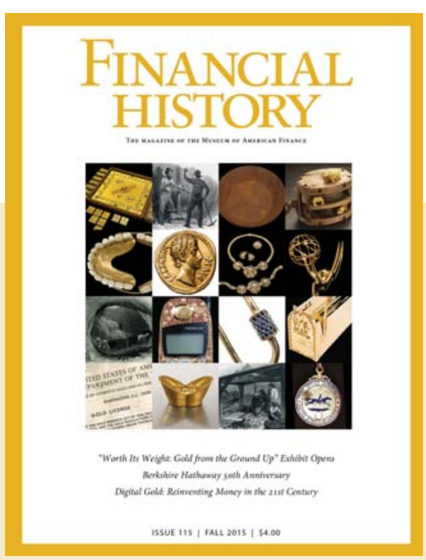
IN THIS ISSUE FEATURES

IN THIS ISSUE DEPARTMENTS

ON THE COVER

Objects featured in the "Worth Its Weight: Gold from the Ground Up" exhibit, opening November 19. See photo spread, page 6.



Financial History Goes Digital

Message to Members

David J. Cowen | President and CEO

This issue of *Financial History* magazine coincides with two major events: the long-anticipated opening of the Museum's gold exhibit, "Worth Its Weight: Gold from the Ground Up," on November 19 and the 50th anniversary of Warren Buffett's leadership of Berkshire Hathaway, which will be marked with an important value investor symposium at the Museum on November 11. It is also significant because with this issue we have launched a digital edition. We will publish this issue and the next in print, but we expect to phase out the print edition eventually and move to an all-digital format.

There are many benefits to digital publishing, including the potential to reach a much wider audience; to enhance content through embedded links; and to showcase objects, documents and photographs from the Museum's unique collection in full color. At the same time, it will be a tremendous savings in both production and distribution costs in this ever-difficult fundraising environment.

For some, like me (who still reads several newspapers a day and really enjoys a hard copy), this change may be difficult at first, but it is time the Museum changes with the world around us. What will not change is the same outstanding content that our editor and editorial board will provide; the magazine remains one of the crown jewels of the Museum.

We also continue to increase the size of our Board, and we welcome three new Trustees this fall. John Davidson III is the chief compliance officer at Citibank and serves on its Executive Committee. Marge Magner is managing partner of Brysam Global Partners, LLC and spent 20 years at Citibank, where she was chair and CEO of its Global Consumer Business. Karen Seitz is the founder and managing director of Fusion Partners, having previously been at Goldman Sachs, where she was a partner.

The Vice Chair of our Board, Andrea de Cholnoky, will represent our Museum at the annual meeting of the International Federation of Finance Museums (IFFM) in Beijing from October 29 through November 1. The Chinese Museum of Finance is hosting this year's conference and will showcase some 21 different finance museums from around the world in their grand exhibition hall. We are honored to represent the United States with a kiosk and exhibition area in which we will showcase a reproduction of our "America in Circulation" exhibition, featuring the collection of Mark R. Shenkman. Andrea will attend the conference and will work with our counterparts from around the globe. There will be many high-profile speakers at the conference, including the head of the Chinese central bank.

This has been a very busy season for the Museum, with our new gold exhibit opening and a first-rate roster of speakers and programs. As we head towards the holiday giving season, we ask you again to assist us in your year-end philanthropy so that we can continue to provide you with these wonderful programs. $

The digital edition of *Financial History* will be available in full color and can be found at www.moaf.org/financialhistory.

OCT 5 1993 Daimler-Benz becomes the first German company to be listed on the New York Stock Exchange.

OCT 6 1979 Paul Volcker becomes chairman of the Federal Reserve.

MoAF and Vested Reach Milestone with Communications Executives Advisory Panel

This fall marks the first anniversary of the Museum's Communications Executives Advisory Panel, which brings together communications and marketing leaders from America's top financial institutions. The panel serves as a forum to collaborate with the Museum as it pursues closer ties with, and opportunities to add greater value to, the Wall Street community. The panel is co-chaired by Museum President David Cowen and Dan Simon, CEO of the Wall Street communications firm Vested.

A primary mission of the panel is to assist in developing topical and engaging programming, such as the "Bitcoin and the Future of Payment Systems" event featuring former Secretary of the Treasury Lawrence Summers and the "Going Public?" program featuring NYSE President Tom Farley. The Advisory Panel also serves as an invaluable networking opportunity for its members across the various sectors of the financial services industry. Membership on the Communications Executives Advisory Panel is by invitation only, and meetings are held quarterly in the Museum's Grand Mezzanine exhibit hall.

Participating firms and organizations include Accenture, AIG, Bank of America, Betterment, Bloomberg, Broadridge, Capco, CME Group, Credit Suisse, Deutsche Asset Management, DTCC, Enso Financial Analytics, the Federal Reserve of New York, Financial Communications Society, First Investors Corporation, Goldman Sachs, Gramercy Institute, ING, Macquarie Bank, Mastercard, MetLife, Moody's, Morgan Stanley, MUFG Union Bank, New York Life, New York Stock Exchange, Oppenheimer, PineBridge Investments, Protiviti, Rockefeller & Co., Roundtable Partners, Santander, S&P Dow Jones, UBS Americas and Voya.

More information on the Museum's Communications Executives Advisory Panel can be found at www.moaf.org/advisorypanel. $

Dan Simon, CEO of Vested, leads a discussion at a recent meeting of the Communications Executives Advisory Panel.

Bill Wreaks of the Gramercy Institute participates in a roundtable discussion.

OCT 7 1896 The Dow Jones Industrial Average begins continuous daily publication.

OCT 11 1834 The Boston Stock Exchange opens for trading.

OCT 13 1857 18 banks in New York City suspend payments on loans, setting off the Panic of 1857.

WORTH ITS WEIGHT
Gold from the Ground Up

Images from the Museum's gold exhibit, opening November 19

1

Photo: Marla Aaron Jewelry

2

Photo: Alan Barnett

3

UNITED STATES OF AMERICA
THE DEPARTMENT OF THE TREASURY
OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS
WASHINGTON, D.C. 20220

GOLD LICENSE

GRANTED UNDER AUTHORITY OF THE GOLD RESERVE ACT OF 1934, SECTIONS 5(B) OF THE ACT OF OCTOBER 6, 1917, AS AMENDED, AND THE GOLD REGULATIONS (TITLE 31, PART 54, CODE OF FEDERAL REGULATIONS) ISSUED THEREUNDER

TO:	LICENSE NUMBER:
ALAN KAYE REFINING COMPANY, INC.	00GS0-13-4209
24 Eldridge Street	AMOUNT AUTHORIZED: (In Fine Troy Ounces) ----------------1,000---------- (ONE THOUSAND ONLY)
New York, New York 10002	THIS LICENSE EXPIRES MIDNIGHT [See Attached Modification]

Upon your statements and representations filed with or otherwise made to the Treasury Department, you are hereby licensed under the regulations issued pursuant to the Gold Reserve Act of 1934, as amended, section 5 (b) of the Act of October 6, 1917, as amended, to acquire and hold, melt and treat, transport, import and dispose of gold in any form, except gold coin or gold derived by any person from gold coin, subject to all of the following limitations and conditions:

A. Pursuant to this license you may acquire and hold, transport, melt and treat, and import gold only for processing or disposition in accordance with item E of this license.

B. Pursuant to this license you may acquire gold only from persons authorized by a Treasury Department gold license, or under the Gold Regulations without a license, to hold and dispose of gold in the form and amount which you acquire.

C. Pursuant to this license you may import gold, in compliance with sections 54.8 and 54.25(a)(2) of the Gold Regulations, for processing or use in the industry, profession or art in which you are regularly engaged, or for furnishing to persons authorized under the Gold Regulations or licenses issued thereunder to acquire such gold.

D. The aggregate fine gold content of gold, including scrap, acquired and held by you, held by others for your account, held by you for the account of others, transported, and melted or treated by you, pursuant to this license, shall not exceed at any one time the amount necessary for the legitimate and customary requirements of the industry, profession or art in which you are regularly engaged, AND IN NO EVENT SHALL EXCEED AT ANY ONE TIME THE AMOUNT OF TROY OUNCES OF FINE GOLD AUTHORIZED IN THIS LICENSE.

4

5

Photo: Jeff Rogers

NOV 15 1867 The first stock ticker goes "online," making continuous nationwide transmission of stock prices possible for the first time.

NOV 19 1792 In the same room where the Declaration of Independence was adopted 16 years earlier, the Insurance Company of North America holds its IPO at $10 per share.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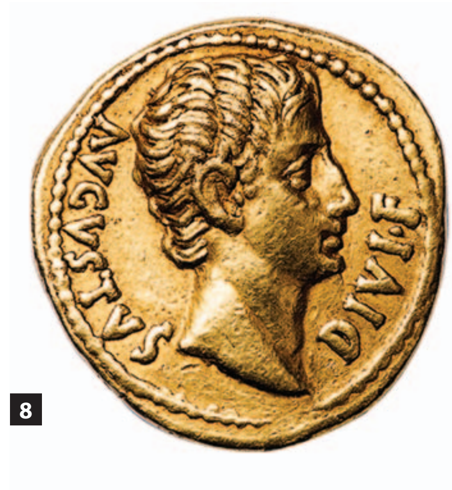
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Photo: Alex Marinescu

9


10

11

1. Cuffling bracelets in four gold alloys — green, white, yellow and rose — by contemporary jewelry designer Marla Aaron.
2. 18-karat gold and jewel encrusted Monopoly set by renowned jewelry artist Sidney Mobell, courtesy of the National Museum of Natural History, Smithsonian Institution.
3. 1940s Tiffany jewelry suite, courtesy of the Tiffany & Co. Archives.
4. Rare US Treasury Department gold license, courtesy of Alan Kaye.
5. 14-karat gold Nokia cell phone encrusted with diamonds, rubies and sapphires by Sidney Mobell, courtesy of the National Museum of Natural History, Smithsonian Institution.
6. Decorative gold objects, courtesy of the Rothschild Collection.
7. Dentures with gold alloy base and porcelain teeth, courtesy of the National Museum of Dentistry.
8. Gold coin depicting Augustus from a rare "12 Caesars" collection, courtesy of Thomas Tesoriero.
9. "The Independent Gold Hunter on His Way to Klondike," 1895, courtesy of John E. Herzog.
10. Gold boat bar, courtesy of the Rothschild Collection.
11. 1880 gold mining vignette by the American Bank Note Co., courtesy of Mark D. Tomasko.

NOV 30 1999 Exxon and Mobil merge to form ExxonMobil Corp.

DEC 1 1949 The Chicago Stock Exchange, the Minneapolis-St. Paul Stock Exchange, the Cleveland Stock Exchange and the St. Louis Stock Exchange merge to form the Midwest Stock Exchange.

Museum Expands Digital Content Offerings on YouTube Channel and Website

By Chris Meyers, Director of Education

Digital media has become an integral part of public information and education. The Museum's mission is to exhibit artifacts for the public, not to become an artifact itself. Therefore, we are embarking on a new plan to utilize digital media and current social network platforms to extend the reach of the Museum's programs beyond its physical walls on Wall Street. As you may have noticed, we've begun to actively post new videos on our YouTube channel and website. These videos showcase visiting lecturers and prominent authors discussing financial topics relevant to current public discourse. Recent videos include:

- Joseph Stiglitz, Nobel laureate, on the Greek bailout, Trans-Pacific Partnership and US inequality
- Nathaniel Popper, *New York Times* reporter, on the rise, growth and future of Bitcoin in our modern financial system
- Bethany McLean, best-selling author, on why mortgage giants Fannie Mae and Freddy Mac are still owned by taxpayers, why several interest groups want to "kill" them and how seven years after they were taken over, their future is still uncertain

These videos provide valuable information the public can use to make informed decisions about how these issues impact their lives. The video segments each cover a specific topic and are no more than 10 minutes long, making them better suited for today's busy viewers. Playlists are also available for viewers interested in watching the full presentations. In addition, keyword tags enable the videos to be found easily in basic search results. To check them out, Google "MoAF Stiglitz" (for example) or visit the Museum's YouTube channel at www.youtube.com/FinanceMuseum or website at www.moaf.org/videos. Viewers interested in receiving notification when new videos are posted may subscribe to our YouTube channel, like us on Facebook or follow us on Twitter (@FinanceMuseum). $

UPCOMING EVENTS

Nov 3	Walking Tour: History of Wall Street. 11:00 a.m. – 12:30 p.m. $15 includes admission to the Museum and the Lunch and Learn with Jason Zweig.
Nov 3	Lunch and Learn Series: Jason Zweig on *The Devil's Financial Dictionary*. Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. $5 includes Museum admission; members and students free.
Nov 11	Berkshire Hathaway 50th Anniversary Symposium, in collaboration with NYSSA. 7:30 a.m. – 2:30 p.m. *This event is sold out.*
Nov 19	Lunch and Learn Series: Artist's talk with Sidney Mobell, world renowned jewelry artist whose work is featured in the Smithsonian Institution and the "Worth Its Weight" exhibit. 12:30 – 1:30 p.m. Free and open to the public.
Nov 19	"Worth Its Weight: Gold from the Ground Up" exhibit opening reception. Reservations required. 6:00 – 8:00 p.m.
Dec 10	Lunch and Learn Series: Joshua Herbstman on "What $18 Trillion Looks Like." Talk followed by Q&A. 12:30 – 1:30 p.m. $5 includes Museum admission; members and students free.
Dec 15	Walking Tour: History of Wall Street. 11:00 a.m. – 12:30 p.m. $15 includes admission to the Museum and the Lunch and Learn with John Sedgwick.
Dec 15	Lunch and Learn Series: John Sedgwick on *War of Two: Alexander Hamilton, Aaron Burr, and the Duel that Stunned the Nation.* Talk followed by Q&A and book signing. 12:30 – 1:30 p.m. $5 includes Museum admission; members and students free.
Dec 19	Walking Tour: Holidays on Wall Street. 11:00 a.m. – 12:30 p.m. $15 includes Museum admission.
Jan 12	2016 Annual Gala. For information, contact Jeanne Baker Driscoll at jdriscoll@moaf.org or 212-908-4694.

All events are held at the Museum (48 Wall Street, NYC) unless otherwise noted. Reservations required. For more information or to register online, visit www.moaf.org/events.

DEC 3 1777 The US national debt is born, as the Continental Congress authorizes Benjamin Franklin and Silas Deane, the American commissioners to France, to obtain a loan of 2 million pounds from the French government.

DEC 16 1835 A fire rages through Lower Manhattan, destroying the New York Stock & Exchange building.

Volunteer Spotlight: Christina Wen

While many of the Museum's volunteers are retirees or students, a few work their volunteer schedules around full-time jobs. Such is the case with Christina Wen, who began volunteering at the Museum in 2012, five years after co-founding a marketing firm that specializes in consumer electronic goods. Because much of her business is international — primarily in China, Hong Kong and Taiwan — she is able to commit a full day each week to her volunteer activities due to the time difference.

Originally from GuangDong, China, Christina came to the Unites States 11 years ago after having earned a degree in International Business with a minor in Finance from Lancaster University in the United Kingdom.

Her background in finance, along with her well-developed language skills, made Christina a natural fit for the Visitor Services department, where she volunteers

on Thursdays as a docent. She leads public and private group tours of the exhibits in English, as well as in Mandarin and Cantonese, by request.

Christina said her favorite part of volunteering as a docent is when visitors tell her they have learned a lot from her. In turn, she said she also learns quite a bit from them. "I get great satisfaction from that exchange of knowledge," she said.

For example, Christina came to the Museum with a good understanding of business and finance, but with little prior knowledge of US history, having never studied that subject in school. Much of her comprehension of American history — particularly financial history — has come from the Museum's exhibits, as well as other volunteers, staff members and visitors.

When she is not volunteering at the Museum, Christina enjoys watching films and visiting other museums, especially the Metropolitan Museum of Art and the Museum of Art and Design. She has recently begun taking pottery classes and is teaching herself the art of acrylic painting.

It is that combination of a love of art and finance that has made Christina a real treasure at the Museum. $

MUSEUM OF AMERICAN FINANCE CORPORATE SUPPORT

The Museum gratefully recognizes the support in the past year of the following corporate funders to help advance our commitment to preserving, exhibiting and teaching the power and value of American finance.

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- The Clearing House
- The Royce Funds
- Tishman Speyer
- US Bank
- Van Eck Global
- Vested
- Voya Financial
- Wells Fargo & Company
- Willis

DEC 18 1985 The US House of Representatives approves the Tax Reform Act of 1986.

DEC 27 1928 Portfolio manager Walter Morgan founds the nation's first "balanced" mutual fund, the Industrial and Power Securities Co., which invests in both stocks and bonds. Later renamed the Wellington Fund, it eventually forms the nucleus of the Vanguard Group of Investment Cos.

How Hen Fever Led to the Chicken of Tomorrow (Part 2: The Chicken of Tomorrow Contest and the Development of the US Poultry Industry)

By Brian Grinder and Dan Cooper

It was Howard C. Pierce's idea. In 1944, Pierce, the poultry research director for A&P Food Stores, addressed a group of Canadian poultry producers who had expressed great concern that the poultry business would face catastrophic decline when the war ended and beef and pork were no longer rationed. Pierce challenged them to breed a meatier chicken, and his comments at that meeting eventually led to A&P's sponsorship of a long-range program to develop such a chicken, which A&P publicists dubbed "The Chicken of Tomorrow Contest." Historian Margaret E. Derry called this contest "the most important event in the 20th century for the poultry-meat-breeding industry."

The poultry industry had come a long way since Hen Fever raged in the early 19th century. A burgeoning broiler industry, which began in the 1920s, was supplying major metropolitan areas such as New York City with chicken, but for most Americans, chicken was only served on Sundays, holidays or special occasions. Beef and pork were what most Americans thought of as meat; chicken was considered a meat substitute. Meat rationing during World War II increased the consumption of chicken on the home front when, according to nutritional historian Amy Bentley, "…up to 60% of 'US Choice' grade cuts of beef, was reserved for military consumption." A World War II manual entitled *How to Stow and Take Care of Food on Shipboard* reminded sailors to take especially good care of meat:

> Mainstay of many a well-balanced meal, meat is one of the major providers of life-essential complete proteins needed to repair body tissue as it wears out, and to furnish the building blocks for new muscle and sinew in husky, hardy men who follow the sea. But meat is more than that. It is the provider of those savory aromas that awaken the appetite—the part of a meal that makes a man finish feeling well-fed. Meat "sticks to the ribs."

Courtesy of North Carolina State University, Raleigh, North Carolina.

Wax model of an "ideal" chicken from the Chicken of Tomorrow Contest.

Without meat, according to myriads of government pamphlets, the war effort would be placed in serious jeopardy. Civilians were encouraged to eat chicken and organ meats instead of beef and pork. Thus, chicken sales increased during the war, but once the war ended, chicken producers were justifiably concerned that meat-hungry Americans would abandon chicken and embrace the return of beef and pork to the dining room table.

While there were a number of factors that kept chicken from competing effectively with beef and pork, the most important factor was price. In 1950, chicken cost more than hamburger. Furthermore, the average size of a chicken was about three pounds, which was too large for two people to consume but too small for a large family. A larger, less expensive bird along with more choices of cuts and products was needed before chicken could ever hope to conquer the meat industry. Historian Glenn Bugos wrote that "Doc" Pierce hoped to, in the words of a 1947 *Saturday Evening Post* article, "squelch that dream of two chickens in every pot by providing one bird chunky enough for the whole family.'"

That same article noted that the goal of the Chicken of Tomorrow Contest was to provide Americans "a chicken with breast meat so thick you can carve it into steaks, with drumsticks that contain a minimum of bone buried in layers of juicy dark meat, all costing less instead of more." The contest offered a prize of $5,000 to the entrant that came closest to producing a chicken that most closely resembled a wax model that was considered to be the ideal bird by the contest committee. The contest ran in a three-year cycle with state contests held the first year, regional contests held the second year and a national contest held the third year. The cycle was repeated twice with the first cycle ending with the national contest in 1948 and the second cycle ending in 1951.

The 1948 national contest was held in Georgetown, Delaware, with 40 contestants who were selected based on the state and regional results of the previous two years. Each contestant sent 720 eggs to Delaware, where they were hatched and reared for 12 weeks under identical conditions. At the end of the 12 weeks, the birds were weighed and sent to be slaughtered. 50 carcasses were selected at random from each contestant and judged on the basis of feed conversion, average weight, rate of feathering and uniformity of stock. A similar process was used in the 1951 national contest, which was held in Fayetteville, Arkansas.

The Vantress Poultry Breeding Farm of Live Oak, California won both national contests. The winning birds were Cornish-New Hampshire crosses; a bird with blood

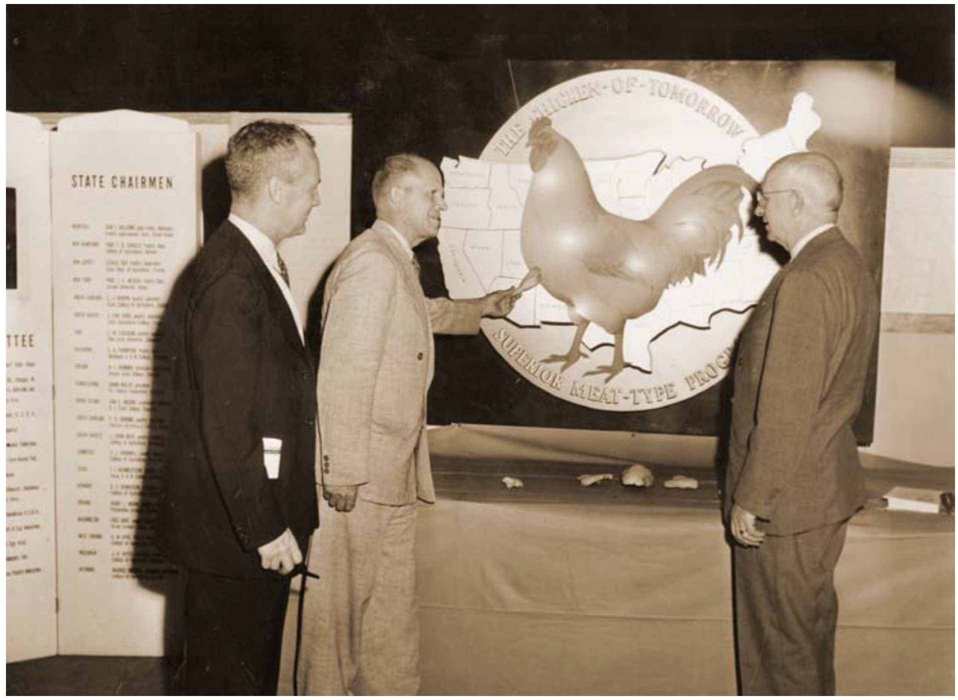
lines running back to the Asian birds that were first introduced to the West during the 19th century Hen Fever. Second place in 1948 went to Arbor Acres Farms of Glastonbury, Connecticut and to Nichols Poultry Farm of Kingston, New Hampshire in 1951. Winning the Chicken of Tomorrow Contest catapulted these breeders into the national spotlight, with Arbor Acres capturing a quarter of the female breeding market and Vantress commanding a third of the market. These two companies dominate the market today, and as author Andrew Lawler notes, "The grilled chicken in your sandwich or wrap comes from a descendant of the Vantress bird."

Vantress is now part of Tyson Foods, a company that is largely responsible for making chicken the most popular meat in the United States. After the Chicken of Tomorrow Contest, companies like Tyson worked tirelessly to convert chicken production into a factory process. Chickens became a factory input, and the results were astonishing. Author William Boyd wrote:

> By any economic standard, the success of the US broiler industry during the post-World War II period has been remarkable. Between 1950 and 1999 US production increased at an average rate of 7% per year to over 40 billion pounds, while real prices declined by almost a third. Today the average American consumes over 80 pounds of chicken a year, more than beef, pork or any other animal flesh protein.

Chicken became less expensive than beef or pork because of the efficiencies produced by factory farming. According to Boyd, the average market weight of a broiler in 1935 was 2.8 pounds, but in 1995 it was 4.7 pounds. In 1935, it took 112 days for a broiler to reach market weight with a feed conversion ratio of 4.4 pounds of feed per pound of broiler. In 1995, it took only 47 days with a feed conversion ratio of only 1.9.

Marketing and product differentiation also helped sell more chicken. Purdue Farms launched an advertising campaign in 1970 that was able to successfully brand Purdue chickens as a high-quality product that was to be preferred over chicken from other poultry producers. Purdue also began selling packages of legs or thighs for lower prices than packages of breasts.



Poultry scientists at the Chicken of Tomorrow Contest.

Courtesy of North Carolina State University, Raleigh, North Carolina.

Don Tyson, CEO of Tyson Foods, saw an opportunity for chicken in the fast food industry, which had been built on the hamburger. He relentlessly pursued McDonalds for years, even though he was politely rebuffed. After 14 years, McDonald's finally called Tyson with an offer to produce Chicken McNuggets. Tyson agreed and retrofitted one of his Arkansas plants for the exclusive production of McNuggets for McDonalds. Soon thereafter, Tyson made a deal to produce chicken tenders for Burger King. Chicken's domination of the fast food industry had begun.

Of course, factory farming chickens is not without its problems. The conditions under which chickens are raised are less than ideal. Furthermore, the heavy use of antibiotics as growth enhancers has caused many to question whether eating factory produced chickens is healthy. The genetic manipulation used to make chickens grow faster also makes their meat paler and softer. In his book *The Meat Racket*, Christopher Leonard wrote: "Ultimately, the softer, paler meat didn't hurt the industry. Above all, the market demanded meat that was produced cheaply, at high volume and on schedule. The taste of the meat was often covered over by breading, frying and flavor additives."

Abuses in farm factory systems have long been chronicled by concerned citizens and animal rights groups. Recently a video made inside a Foster Farm's plant in California captured workers plucking live chickens, as well as punching and throwing live birds. Other videos have captured birds living in cramped cages unable to stand because of their massive size. Major poultry producers have not ignored these concerns.

Tyson Foods now has an Office of Animal Well-Being, whose mission is to commit "to the well-being, proper handling and humane slaughter of all the animals we use to produce meat and poultry." Perdue Farms has a poultry welfare policy that "is guided by the belief that we have a responsibility to ensure that the animals in our care are treated with respect." Others on the retail side of the business, such as McDonalds, Chik-fil-A, Chipotle Mexican Grill and Panera Bread Company, have either already curbed or pledged to curb the use of antibiotics in the poultry they sell.


Courtesy of North Carolina State University, Raleigh, North Carolina.

Awarding the first prize trophy at the Chicken of Tomorrow Contest.

© Erik Freeland/Corbis

Don Tyson, CEO of Tyson Foods, spent 14 years convincing McDonald's to hire Tyson to produce its Chicken McNuggets. He later made a deal with Burger King as well, beginning chicken's domination of the fast food industry.

In spite of these actions, many food industry watch dogs remain skeptical. However, there is hope that newer, more humane methods of raising poultry will allow those who do not choose the vegetarian route to consume chicken with a clear conscience. Perhaps a new Chicken of Tomorrow Contest should be held that asks contestants to take these moral and ethical issues into consideration. $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

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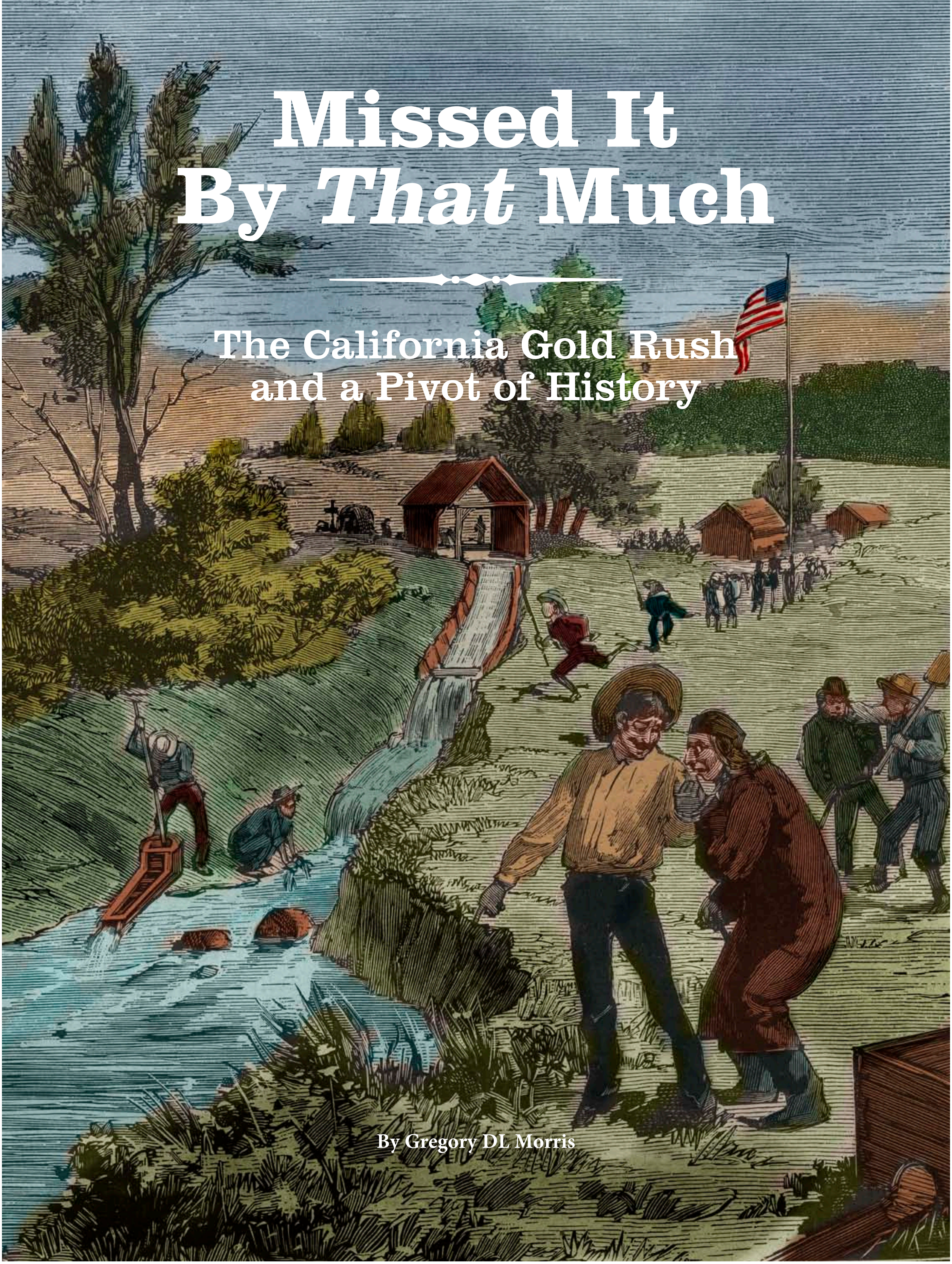
Missed It By *That* Much

The California Gold Rush and a Pivot of History

By Gregory DL Morris



Engraving of Sutter's Mill, site of the discovery of gold in California, circa 1850s.

Spanish-speaking people sought gold in North America for 358 years. They missed it by nine days.

The first major gold discovery in North America was January 24, 1848, when gold flakes were found in a mill race in a settlement outside what is now Sacramento, California. At the time it was technically *Alta California*, a province of Mexico. But in name only, and not for very much longer.

Mexico was at war with the United States, and on July 7, 1847, a small detachment of US Navy officers and sailors had captured the presidio at Monterey, the provincial capital, without firing a shot; the small garrison had already decamped to Los Angeles.

Nine days after the gold discovery, on February 2, 1848, the government of Mexico signed the Treaty of Guadalupe Hidalgo, ending the Mexican War and ceding California, along with what is today Arizona, New Mexico, Texas and parts of other states, to the United States.

Given the one-sided nature of the war, it would be difficult to argue that if Mexican authorities had known about the gold in California earlier, the outcome of the conflict would have been different. If the discovery had been made many years earlier, perhaps that wealth could have changed the economic and political situation in Mexico.

Perhaps a larger population, or at least a substantial garrison, would have been in place, and the capture of California might have been a battle or even campaign, rather than a matter of wading ashore from a whaleboat and running up the Stars and Stripes. The course, but not likely the outcome, of the war could have been different.

In contrast, there is no doubt about the effects of the California gold discovery on the adolescent United States. Word only took a few months to filter back East, and the 49ers stampeded their way into history. The population of California boomed, and it applied for statehood that same year. Its state constitution prohibited slavery, and its admission precipitated the Compromise of 1850, one of the series of fragile measures that slowed, but did not stop, the slide into civil war.

The vast wealth, estimated at 750,000 pounds of gold by the time the fields were played out in the late 1850s, boosted the US economy and gave the federal government some financial footing on the eve of war. After the war, the need to connect California to the rest of the nation spurred Abraham Lincoln's dream of a transcontinental railroad, completed in 1869.

Meanwhile Mexico, shorn of its northern third, endured cycles of revolution, dictatorship and reform. In a statement of great accuracy and great melancholy, José de la Cruz Porfirio Díaz Mori, who served seven terms as president of Mexico (between 1876 and 1911) said, *"Pobre México! ¡Tan lejos de Dios y tan cerca de los Estados Unidos!"* [Poor Mexico! So far from God and so close to the United States!] Born in the poor southern state of Oaxaca, he is buried in Montparnasse Cemetery in Paris.

Library of Congress

Gold miners in El Dorado, CA, circa 1849–53.

The site commonly known as Sutter's Mill is formally Marshall Gold Discovery State Historic Park. According to the official park history, James W. Marshall discovered gold on the South Fork of the American River in the valley the Nisenan Indians knew as Cullumah. "This event led to the greatest mass movement of people in the Western Hemisphere and was the spark that ignited the spectacular growth of the West during the ensuing decades." The tailrace of Sutter's sawmill is still visible.

Marshall was building the mill for John Sutter, a Swiss who had permission from Mexican authorities to build a settlement and trading post, *Nuevo Helvetia*. Despite efforts by Marshall and Sutter to keep the secret, the largest gold rush in US history was on by early 1849.

Park research estimates that at the time of Marshall's discovery, the state's non-Indian population was about 14,000. By the end of 1849, it had risen to nearly 100,000, and it continued to grow to some 250,000 by 1852. It reached 380,000 by the eve of the Civil War.

Today, a few mines and the remains of several boom towns have been preserved in a variety of state parks. Most of them, including the Marshall Gold Discovery site, the Empire Mine, the historic town of Columbia, the rich gold deposits at Plumas Eureka and the controversial hydraulic mining pits at Malakoff Diggings, are in or near the Mother Lode region of the central Sierra Nevada foothills.

According to the US Archives' summary of the treaty of Guadalupe Hidalgo, Mexico ceded to the United States *Alta California* and *Nuevo Mexico*. That was known as the Mexican Cession and included present-day Arizona and New Mexico and parts of Utah, Nevada and Colorado (Article V). Mexico relinquished all claims to Texas and recognized the Rio Grande as the southern boundary with the United States (also Article V).

The United States paid Mexico $15 million "in consideration of the extension acquired by the boundaries of the United States" (Article XII) and agreed to pay American citizens debts owed to them by the Mexican government (Article XV). Other provisions included protection of property and civil rights of Mexican nationals living within the new boundaries of the United States (Articles VIII and IX), the promise of the United States to police its boundaries (Article XI) and compulsory arbitration of future disputes between the two countries (Article XXI).

Given the current heated debate over immigrants living and working in the United States, it is worth noting that the US government is treaty bound to protect the property and civil rights of Mexican nationals. $

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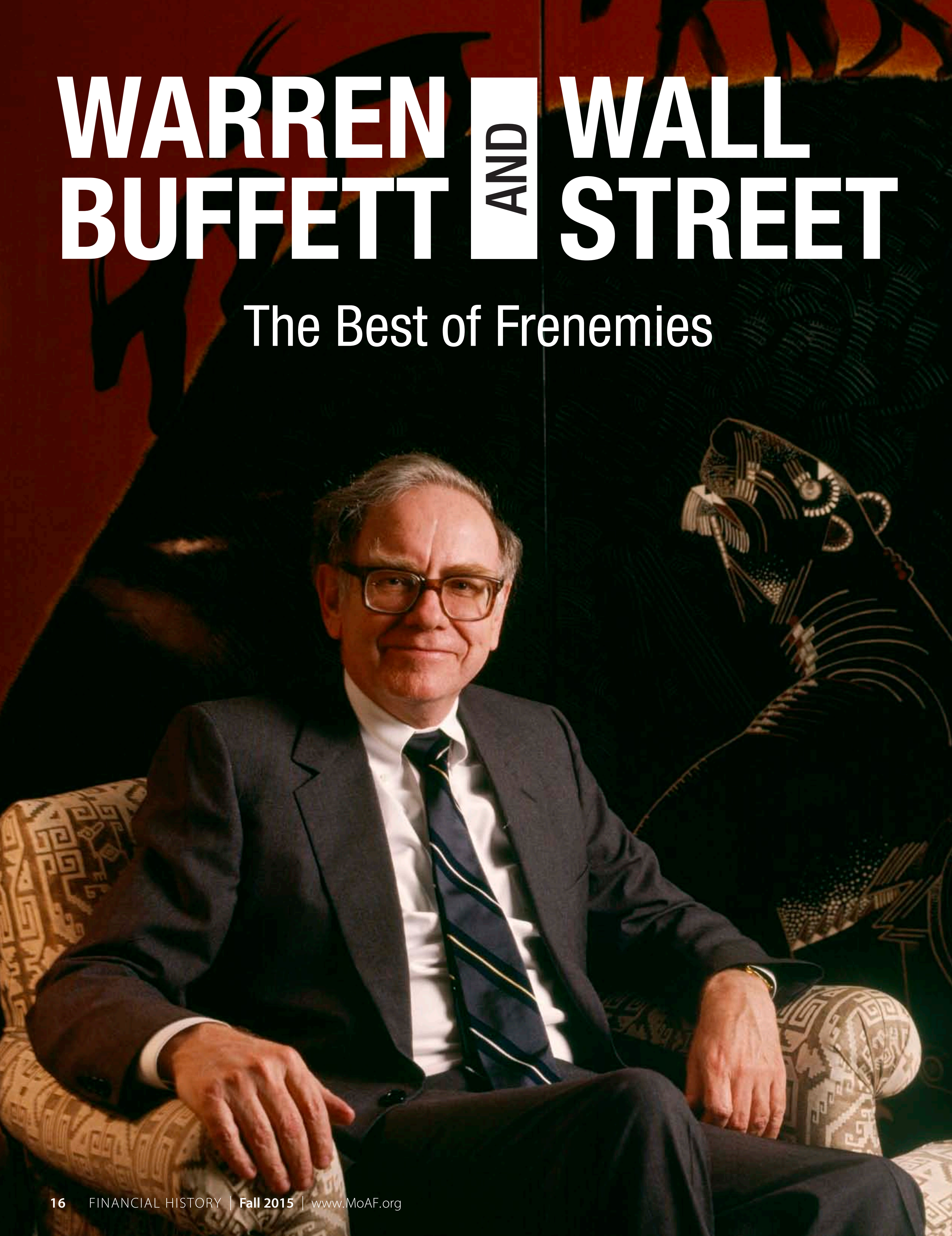
WARREN BUFFETT AND WALL STREET

The Best of Frenemies



Lawrence A. Cunningham

In 1965, when 35-year-old Nebraskan Warren Buffett took control of Berkshire Hathaway, Inc., a dying New England textile company, the local press portrayed him as a Wall Street takeover artist: a liquidator of the sort that inspired Danny DeVito's fiendish character in "Other People's Money." True, Buffett acquired Berkshire on the cheap — for a fraction of its $22 million book value of $19.24 per share — and eventually shuttered the mills. But he has always campaigned vigorously against hostile bids, heavy borrowing, asset flipping and other controversial Wall Street practices.

Buffett became a vocal critic of Wall Street, as he favored cash to debt, held companies for the long term and defended trustworthy managers against short-term pressures. His oratory sounded more like the high-minded defender of the corporate bastion in "Other People's Money," played by Gregory Peck, than an apostle of greed. Speaking as the reluctant interim chairman of Salomon after its 1991 bond trading scandal, for instance, Buffett famously broadcast to Congress a new credo given to his Wall Street bankers: "Lose money for the firm, even a lot of money, and I will be understanding; lose reputation for the firm, even a shred of reputation, and I will be ruthless."

In addition to steady criticism, however, Buffett has also been a vital friend to Wall Street. His stint as Salomon chairman followed from Berkshire's "white squire" stake in the investment bank, designed to deter a hostile takeover bid. The year was 1987, when Salomon's largest shareholder grew frustrated with management and flirted with selling a 12% block to Ron Perelman, the corporate raider who had recently seized control of Revlon. Fearful of being next, Salomon CEO John Gutfreund turned to Buffett, who pledged fidelity while buying a sizable issue of convertible preferred stock yielding 9%.

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Berkshire Hathaway CEO Warren Buffett.

Buffett's cultivation of a reputation for offering hands-off long-term capital dates back to 1973 when Berkshire accumulated a stake in The Washington Post Co. Buffett vowed loyalty to CEO Kay Graham, who soon asked him to join the board. In 1986, Buffett went further when Berkshire took a large position in Capital Cities/ABC, giving its managers, Dan Burke and Tom Murphy, proxy power to vote Berkshire's shares as they saw fit. During that era of hostile takeovers, Berkshire and Buffett likewise backed managers against raiders at companies such as Champion and Gillette, and defeated Ivan Boesky's run at Scott Fetzer, paying $315 million to acquire the conglomerate, which Berkshire still owns to this day.

Wall Street values Buffett's reputation along with Berkshire's balance sheet. In the 25 days after the 2008 collapse of Lehman Brothers, Berkshire invested $15.6 billion in numerous companies, when most of corporate America was starved for credit. For one, Berkshire staked $5 billion for preferred stock in Goldman Sachs, paying a 10% dividend and redeemable for a 10% premium. Berkshire also got an option to buy a similar amount of Goldman common stock at $115 per share, below the market price of $125, making it "in the money."

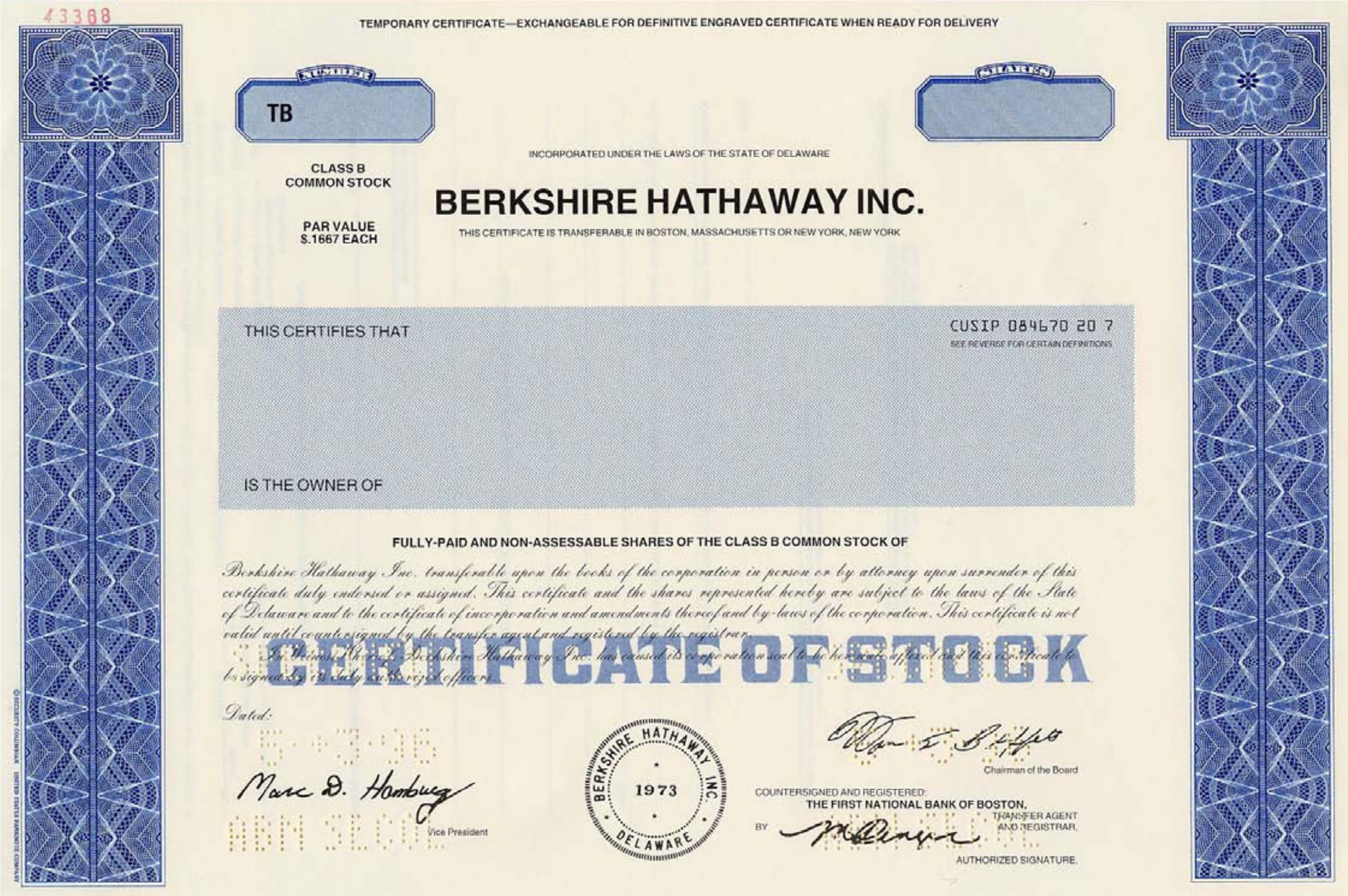
In 2011, after the crisis passed, Goldman redeemed the preferred. So Berkshire earned a few years of dividends plus the buyback premium, adding to $1.8 billion. In early 2013, Berkshire exercised its option to buy Goldman common. Rather than pay the $5 billion cash price (then worth $6.4 billion), Berkshire took stock valued at the difference of $1.4 billion. Berkshire's total gain on its $5 billion investment was $3.2 billion, 64% in a few years — along with 3% of Goldman's common stock it still owns.

Meanwhile, Bank of America continued to struggle to the point where, in 2011, it likewise turned to Berkshire for a $5 billion investment. Berkshire received preferred stock paying a 6% dividend and redeemable for a 5% premium. In addition, Berkshire obtained warrants to purchase 700 million shares of the bank's common stock at a per share exercise price of $7.14, or just under $5 billion. Such a stake is worth more than twice that today ($11.2 billion at the stock's recent price of $16) and would represent a greater than 6% interest in the bank. If Berkshire exercises the warrants in 2021, on the eve of expiration, it will add to an investment portfolio already boasting such big stakes in venerable institutions of finance, including American Express, Moody's Investor Service and Wells Fargo.

Berkshire and Buffett have always been bullish on corporate America, yet they behave quite differently from most managers and their Wall Street advisers alike. For instance, unlike most American corporations and their financiers, Berkshire shuns debt as costly and constraining. Since 1967, the preferred form of leverage has arisen from internal insurance operations. Customers pay premiums up front in exchange for claims to be paid later, if at all, and insurers get to invest the proceeds, called float, in the interim. Float offers more attractive leverage than debt since there are no coupons, due dates, covenants — or Wall Street bankers and fees. Berkshire now owns marquee companies in the insurance field, including National Indemnity, GEICO and Gen Re, and commands float exceeding $85 billion.

In typical takeovers, whether by strategic buyers across corporate America or financial buyers from Wall Street, acquirers always intervene, invariably change strategy and frequently replace management. Berkshire's opposite tack makes it an attractive alternative for sellers of businesses seeking autonomy. They also relish Berkshire's sense of permanence, particularly compared to Berkshire's rivals from Wall Street's private equity funds. In private equity's leveraged buyouts, businesses face not only leverage and intervention, but the funds charge high fees and make quick exits, meaning rapid change followed by a sale. Berkshire, in contrast, imposes no fees and has not sold a subsidiary in 40 years.

While Wall Street sponsored hostile bidders and junk-bond buyouts to break up vast conglomerates, Buffett was not only defending corporate managers but



Courtesy of Scripophily.com — The Gift of History.

Rare specimen Class B stock certificate from Berkshire Hathaway Inc., printed in 1996.

building Berkshire into one of the largest conglomerates in history. Today, in addition to an investment portfolio of two dozen stocks worth more than $100 billion, Berkshire is comprised of 65 different wholly-owned subsidiaries, nine of which would be *Fortune* 500 companies standing alone. The conglomerate is worth more than $500 billion with a per share book value exceeding $100,000—marking a 20% compound annual growth rate from Buffett's assumption of control.

Berkshire's Clayton Homes subsidiary is the nation's largest builder and financier of manufactured housing, most sold to lower income Americans. On Wall Street, Clayton repackages substantial portions of its loans into mortgage-backed securities. In 2008, investors in other securitized mortgage loans faced steep defaults, due to lax lending practices of originators along with poor quality control during the securitization process. But Clayton's securitized loans fully performed, repaying all principal and interest. It is not because of customer credit quality, which is weak, but because despite low credit scores, Clayton only lends to borrowers on terms they likely can repay—based on an examination of assets and income and without escalating "teaser" interest rates.

Berkshire's unique practices do not always succeed. Take its aversion to middlemen in the acquisitions arena. Berkshire does not scout for deals but rather "waits for the phone to ring," as Buffett puts it. Buffett evaluates opportunities alone or with advice only from Vice Chairman Charlie Munger, foregoing the professionals that most companies hire to conduct due diligence. While the practice has generally yielded strong results, costly mistakes have occurred, ranging from the total loss of $443 million paid in 1993 using Berkshire stock for a disintegrating shoe maker to a $1 billion after-tax loss on debt Berkshire staked in 2007 on a failed leveraged buyout of Texas utility companies. Berkshire's $22 billion 1999 acquisition of Gen Re, also paid in Berkshire stock, dramatized the pitfalls: unbeknownst to Buffett when Berkshire bought Gen Re, its underwriting standards had deteriorated, its derivatives book had become bloated and its exposure to catastrophic risks was unduly concentrated. Without Berkshire, Gen Re's losses covering the 9/11 terrorist attacks on New York's Financial District would likely have rendered it insolvent.

Consider Buffett's trust-based philosophy of granting managers unbridled autonomy. While lauded within the company and responsible for much of Berkshire's success at the subsidiary level, costly management shifts sometimes result. Costs are revealed in several well-publicized CEO departures, including multiple successive resignations within several years at each of Benjamin Moore, Gen Re and NetJets.

The most dramatic departure occurred in 2011 when David Sokol, widely seen as a likely successor to Buffett, was caught

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Berkshire Hathaway Inc. stock certificate, dated March 17, 2010.

front-running: a form of insider trading in which he bought shares in a publicly traded stock, Lubrizol, ahead of pitching the company as a Berkshire acquisition candidate. While the scandal prompted questions about Berkshire's lack of formal vetting and grooming of top executives, Buffett's response also raised eyebrows. After Buffett learned of Sokol's front running, he drafted a press release himself. The release, which spoke of Sokol's "extraordinary" contributions to Berkshire and expressed Buffett's opinion that Sokol had done nothing illegal, drew sharp criticism, given Buffett's traditional high standard of rectitude.

The approach reflected Buffett's antipathy to corporate bureaucracy, which similarly translates into substantial net savings, but with costs. For instance, Berkshire has no centralized departments such as communications, human resources or legal. Yet such frugality can leave subsidiaries flatfooted in response to the inevitable investigative journalism targeting them. One such exposé attacked Berkshire's practice of generating substantial funds from float, suggesting it gives personnel at National Indemnity perverse incentives to avoid or delay paying legitimate claims — even in bad faith.

Another piece challenged Clayton Homes, arguing that its employees pressure customers into unaffordable financing arrangements and follow up with aggressive collection practices. After publication, both subsidiaries and Berkshire corrected errors in the stories, but the damage had been done. A full-time professional who makes engagement with journalists a top priority would likely have altered the shape of the original reports, a better outcome than the thrust and parry that now defines the public record. Berkshire acts as if it is small, but it is a Goliath to reporters and readers alike.

Buffett is critical of Wall Street and other financial intermediaries primarily for unnecessary complexity and corresponding costs. His core message for Wall Street remains valuable: simplicity. Parsimony and frugality underpin the Berkshire model which, while imperfect, has delivered substantial net gains, thanks to these hallmarks: investment in reputation; commitment to trust, loyalty and autonomy; avoiding hostile or leveraged acquisitions; self-reliance in corporate administration; and permanent ownership of subsidiaries.

Fifty years after Buffett took control of Berkshire, the 85-year-old Omaha denizen still has much to offer Wall Street, in capital and wisdom alike. He is certainly more Peck than DeVito. $

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... THE SPEECH THAT WON THE NOMINATION ...

AT THE NATIONAL DEMOCRATIC CONVENTION AT CHICA

MR. CHAIRMAN AND GENTLEMEN OF THE CONVENTION:

I would be presumptuous, indeed, to present myself against the distinguished gentlemen to whom you have listened if this was a mere measuring of abilities; but this is not a contest between persons. The humblest citizen in all the land, when clad in the armor of a righteous cause, is stronger than all the hosts of error. I come to speak to you in defense of a cause as holy as the cause of liberty — the cause of humanity.

When this debate is concluded, a motion will be made to lay upon the table the resolution offered in commendation of the administration and also the resolution offered in condemnation of the administration. We object to bringing this question down to the level of persons. The individual is but an atom; he is born, he acts, he dies; but principles are eternal; and this has been a contest over a principle.

Never before in the history of this country has there been witnessed such a contest as that through which we have just passed. Never before in the history of American politics has a great issue been fought out, as this issue has been, by the voters of a great party. On the fourth of March, 1895, a few Democrats, most of them members of Congress, issued an address to the Democrats of the Nation, asserting that the money question was the paramount issue of the hour; declaring that a majority of the Democratic party had the right to control the action of the party on this paramount issue; and concluding with the request that the believers in the free coinage of silver in the Democratic party should organize, take charge of, and control the policy of the Democratic party. Three months later, at Memphis, an organization was perfected, and the Silver Democrats went forth openly and courageously proclaiming their belief, and declaring that, if successful, they would crystallize into a platform the declaration which they had made. Then began the conflict. With a zeal approaching the zeal which inspired the crusaders who followed Peter the Hermit, our Silver Democrats went forth from victory unto victory until they are now assembled, not to discuss, not to debate, but to enter up the judgment already rendered by the plain people of this country. In this contest brother has been arrayed against brother, father against son. The warmest ties of love, acquaintance, and association have been disregarded; old leaders have been cast aside when they have refused to give expression to the sentiments of those whom they would lead, and new leaders have sprung up to give direction to this cause of truth. Thus has the contest been waged, and we have assembled here under as binding and solemn instructions as were ever imposed upon representatives of the people.

We do not come as individuals. As individuals we might have been glad to compliment the gentleman from New York (Senator Hill), but we know that the people for whom we speak would never be willing to put him in a position where he could thwart the will of the Democratic party. I say it was not a question of persons; it was a question of principle, and it is not with gladness, my friends, that we find ourselves brought into conflict with those who are now arrayed on the other side.

The gentleman who preceded me (ex-Governor Russell) spoke of the State of Massachusetts; let me assure him that not one present in this Convention entertains the least hostility to the people of the State of Massachusetts, but we stand here representing people who are the equals before the law of the greatest citizens in the State of Massachusetts. When you (turning to the gold delegates) come before us and tell us that we are about to disturb your business interests, we reply that you have disturbed our business interests by your courts.

We say to you that you have made the definition of a business man too limited in its application. The man who is employed for wages is as much a business man as his employer; the attorney in a country town is as much a business man as the corporation counsel in a great metropolis; the merchant at the cross-roads store is as much a business man as the merchant of New York; the farmer who goes forth in the morning and toils all day — who begins in the Spring and toils all Summer — and who, by the application of brain and muscle to the natural resources of the country creates wealth, is as much a business man as the man who goes upon the board of trade and bets upon the price of grain; the miners who go down a thousand feet into the earth, or climb two thousand feet upon the cliffs, and bring forth from their hiding places the precious metals to be poured into the channels of trade, are as much business men as the few financial magnates who, in a back room, corner the money of the world. We come to speak for this broader class of business men.

Ah, my friends, we say not one word against those who live upon the Atlantic coast, but the hardy pioneers who have braved all the dangers of the wilderness; who have made the desert to blossom as the rose — the pioneers away out there (pointing to the West), who rear their children near to Nature's heart, where they can mingle their voices with the voices of the birds — out there where they have erected school-houses for the education of their young, churches where they praise their Creator, and cemeteries where rest the ashes of their dead — these people, we say, are as deserving of the consideration of our party as any people in this country. It is for these that we speak. We do not come as aggressors. Our war is not a war of conquest; we are fighting in the defense of our homes, our families, and posterity. We have petitioned, and our petitions have been scorned; we have entreated, and our entreaties have been disregarded; we have begged, and they have mocked when our calamity came. We beg no longer; we entreat no more; we petition no more. We defy them.

The gentleman from Wisconsin has said that he fears a Robespierre. My friends, in this land of the free you need not fear that a tyrant will spring up from among the people. What we need is an Andrew Jackson to stand, as Jackson stood, against the encroachments of organized wealth.

They tell us that this platform was made to catch votes. We reply to them that changing conditions make new issues; that the principles upon which Democracy rests are as everlasting as the hills, but that they must be applied to new conditions as they arise. Conditions have arisen, and we are here to meet those conditions. They tell us that the income tax ought not to be brought in here; that it is a new idea. They criticise us for our criticism of the Supreme Court of the United States. My friends, we have not critised; we have simply called attention to what you already know. If you want criticisms, read the dissenting opinions of the court. There you will find criticisms. They say that we passed an unconstitutional law; we deny it. The income tax law was not unconstitutional when it was passed; it was not unconstitutional when it went before the Supreme Court for the first time; it did not become unconstitutional until one of the [illegible] the burden of government justly upon the [illegible] When I find a man who is not willing to bear his share of the burdens of the government which protects him, I find a man who is unworthy to enjoy the blessings of a government like ours.

They say that we are opposing national bank currency; it is true. If you will read what Thomas Benton said, you will find that he said, in searching history, he could find but one parallel

which is being built up in Washington, and which excludes from participation in official benefits the humbler members of society.

Let me call your attention to two or three important things. The gentleman from New York says that he will propose an amendment to the platform providing that the proposed change in our monetary system shall not affect contracts already made. Let me remind you that there is no intention of affecting those contracts which, according to present laws, are made payable in gold, but if he means to say that we can not change our monetary system without protecting those who have loaned money before the change was made, I desire to ask him where, in law or in morals, he can find justification for not protecting the debtors when the act of 1873 was passed, if he now insists that we must protect the creditors.

He says he will also propose an amendment which will provide for the suspension of free coinage if we fail to maintain the parity within a year. We reply that when we advocate a policy which we believe will be successful, we are not compelled to raise a doubt as to our own sincerity by suggesting what we shall do if we fail. I ask him, if he would apply his logic to us, why he does not apply it to himself. He says he wants this country to try to secure an international agreement. Why does he not tell us what he is going to do if he fails to secure an international agreement? There is more reason for him to do that than there is for us to provide against the failure to maintain the parity. Our opponents have tried for twenty years to secure an international agreement, and those are waiting for it most patiently who do not want it at all.

And now, my friends, let me come to the paramount issue. If they ask us why it is, that we say more on the money question than we say upon the tariff question, I reply that, if protection has slain its thousands, the gold standard has slain its tens of thousands. If they ask us why we do not embody in our platform all the things that we believe in, we reply that when we have restored the money of the constitution all other necessary reforms will be possible; but that until this is done there is no other reform that can be accomplished.

Why is it that within three months such a change has come over the country? Three months ago, when it was confidently asserted that those who believe in the gold standard would frame our platform and nominate our candidates, even the advocates of the gold standard did not think that we could elect a President. And they had good reason for their doubt, because there is scarcely a State here to-day asking for the gold standard which is not in the absolute control of the Republican party. But note the change. Mr. McKinley was nominated at St. Louis upon a platform which declared for the maintenance of the gold standard until it can be changed into bimetallism by international agreement. Mr. McKinley was the most popular man among the Republicans, and three months ago everybody in the Republican party prophesied his election. How is it to-day? Why, the man who was once pleased to think that he looked like Napoleon — that man shudders to-day when he remembers that he was nominated on the anniversary of the battle of Waterloo. Not only that, but, as he listens, he can hear with ever-increasing distinctness the sound of the waves as they beat on the lonely shores of St. Helena.

Why this change? Ah, my friends, is not the reason for the change evident to any one who will look at the matter? No private character, however pure, no personal popularity, however great, can protect from the avenging wrath of an indignant people, a man who will declare that he is in favor of fastening the gold standard upon this country, or who is willing to surrender the right of self-government and place the legislative control of our affairs in the hands of foreign potentates and powers.

We go forth confident that we shall win. Why? Because upon the paramount issue of this campaign there is not a spot of ground upon which the enemy will dare to challenge battle. If they tell us that the gold standard is a good thing, we shall point to their platform and tell them that their platform pledges the party to get rid of the gold standard and substitute bimetallism. If the gold standard is a good thing, why try to get rid of it? I call your attention to the fact that some of the very people who are in this Convention to-day, and who tell us that we ought to declare in favor of international bimetallism — thereby declaring that the gold standard is wrong and that the principle of bimetallism is better — these very people four months ago were open and avowed advocates of the gold standard, and were then telling us that we could not legislate two metals together even with the aid of all the world. If the gold standard is a good thing, we ought to declare in favor of its retention and not in favor of abandoning it; and if the gold standard is a bad thing, why should we wait until other nations are willing to help us to let go? Here is the line of battle, and we care not upon which issue they force the fight; we are prepared to meet them on either issue, or on both. If they tell us that the gold standard is the standard of civilization, we reply to them that this, the most enlightened of all the nations of the earth, has never declared for a gold standard, and that both the great parties this year are declaring against it? If the gold standard is the standard of civilization, why, my friends, should we not have it? If they come to meet us on that issue we can present the history of our nation. More that that; we can tell them that they will search the pages of history in vain to find a single instance where the common people of any land have ever declared themselves in favor of the gold standard. They can find where the holders of fixed investments have declared for a gold standard, but not where the masses have.

Mr. Carlisle said in 1878 that this was a struggle between "the idle holders of idle capital," and "the struggling masses, who produce the wealth and pay the taxes of the country," and, my friends, the question we are to decide is: Upon which side will the Democratic party fight, upon the side of the "idle holders of idle capital," or upon the side of "the struggling masses?" That is the question which the party must answer first, and then it must be answered by each individual hereafter. The sympathies of the Democratic party, as shown by the platform, are on the side of the struggling masses who have ever been the foundation of the Democratic party. There are two ideas of government. There are those who believe that, if you will only legislate to make the well-to-do prosperous, their prosperity will leak through on those below. The Democratic idea, however, has been that if you legislate to make the masses prosperous, their prosperity will find its way up through every class which rests upon them.

You come to us and tell us that the great cities are in favor of the gold standard; we reply that the great cities rest upon our broad and fertile prairies. Burn down your cities and leave our farms, and your cities will spring up again as if by magic; but destroy our farms and the grass will grow in the streets of every city in the country.

My friends, we declare that this Nation is able to legislate for its own people on every question, without waiting for the aid or consent of any other nation on earth; and upon that issue we expect to carry every State in the Union. I shall not slander the inhabitants of the fair State of Massachusetts nor the inhabitants of the State of New York by saying that when they are con-

William Jennings Bryan and the

"Cross of Gold" Speech

By Ron Hunka

On July 9, 1896, at the Democratic National Convention in Chicago, William Jennings Bryan, a former two-term congressman from Nebraska and recently-defeated senate candidate, rose to deliver an oration to address the great monetary crisis dividing the nation. Bryan's "Cross of Gold" speech would prove to be one of the most memorable addresses in American political history.

In the last quarter of the 19th century, there were two major schools of thought about American monetary policy, each bitterly opposed to the other. Advocates of one were known as "silverites," who favored a currency redeemable in silver or gold, a position called "bimetallism." Silverites championed "free silver," that is the free, unlimited coinage of silver. In addition, they advocated the circulation of "cheap" or devalued money. In this way, they hoped to be able to pay off their debts. (Silver had been used as money, along with gold, prior to its demonetization in the Mint Act of 1873. The Act was derisively known among free silver advocates as the "Crime of 1873.")

Advocates of the second school were designated "goldbugs." To ensure the dollar's stability, they believed that a sound currency must be based on gold and that silver should be demonetized. (A Republican Congress had essentially put the nation on a gold standard in the 1873 Act. This meant that the value of the nation's monetary unit, the dollar, was fixed to a defined measure of gold.)

Adherents of the silverite position were mainly members of the Democratic party, the Populists—a political party that existed from 1891 to 1908, and other smaller parties. They were mainly farmers and laborers. The goldbugs were principally Republicans, who were predominantly bankers and businessmen. However, President Grover Cleveland, a Democrat, along with a significant block of his party, supported the monetary policies of the goldbugs. Such persons were often called "Bourbon Democrats," a name sometimes mistakenly attributed to their drinking proclivities.

The Sherman Silver Purchase Act of 1890

As a concession to the grievances of the farmers, laborers and miners, Congress passed the Sherman Silver Purchase Act of 1890. It did not authorize the free and unlimited coinage of silver, but it did increase the monthly amount of silver that the government was required to purchase to 4.5 million ounces. The aim of the bill was to allow farmers to pay off large debts with cheaper dollars. The silver was paid for with special issue Treasury notes, which could be redeemed for either silver or gold. However, when investors began to preferentially redeem the notes for gold, it resulted in a depletion of federal gold reserves.

In 1893, to address the gold reserves problem, President Cleveland called a special session of the 53rd Congress to repeal the Silver Purchase Act. Of course, the silverites opposed the action, and Congressman William Jennings Bryan spoke against the bill. On August 16, to a full membership of the House and an overflowing visitors gallery, Bryan articulated what he considered to be the potentially "dire consequences of a single gold standard." It would, he said, shrink the global supply of money when the world population was growing and make the price of gold rise so that the "debt of the debtor" would increase. Quoting from Dante Alighieri's *The Divine Comedy*, Bryan opined, it would lead to a "realm over whose door is written: 'Abandon hope, all ye who enter here!'"

Overall, Bryan displayed an adroit command of the literature of currency and eloquently made his case that a monetary system based on both gold and silver would best bring about a stable economy. In the end, however, Bryan's efforts failed, as Cleveland succeeded in repealing the Act.

The Paid Lecturer

When Congress formally adjourned in March 1895, Bryan, the two-term congressman who was now unemployed, made it known that he was available to speak on topics such as "lower tariffs, prohibition, the graduated income tax and the free coinage of silver."

After a failed attempt at election as senator from Nebraska, at a time when senators were still elected by state legislatures,

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William Jennings Bryan's "Cross of Gold" speech from the 1896 Democratic National Convention.

Bryan settled on a career in journalism and lecturing. In the former, he wrote editorials for the *Omaha World-Herald*. In the latter, working through several speakers bureaus, he became a paid lecturer. Earning anywhere from $50 to the remarkable sum, for that time, of $200 per speech, Bryan made major speeches four or five times a week. Not uncommonly, though, he also delivered speeches *pro bono* for those who could not pay.

It was the Worst of Times

The Panic of 1893 brought about the worst financial crisis in US history up to that time. Among other precipitating factors, the Panic resulted when a major eastern railroad, the Reading, went into receivership due to over expansion and a resulting inability to repay loans. This turn of events caused the bankruptcy of about a quarter of the nation's railroads, the collapse of 600 banks and the closure of 16,000 businesses. Subsequently, the stock market plunged, and an agricultural depression in the South and West worsened.

Over the next few years, unemployment rose to four million. Despite the seriousness of the situation, believing with many politicians of the time that such events were a normal part of the self-correcting business cycle, President Cleveland took little action. However, he did choose to shore up the gold reserves — which had dropped below the psychological barrier of $100 million — via discounted bond sales to J.P. Morgan and American representatives of the Rothschilds. Both made huge profits.

As Clear as a Cathedral Bell

The Panic set the stage for the 1896 presidential election and Bryan's speech at the Democratic convention. According to historian Michael Kazin, once in office new presidents of that period usually did not entertain the notion of radical changes in national policy, but rather leaned toward conservative policies. Bryan, however, was different and envisioned a radical transformation of a political order increasingly controlled by the power of great financial and manufacturing corporations. A devout Presbyterian, Bryan saw himself as the emerging leader of a great moral crusade, which would bring about "a regime of Christian decency" and an accompanying focus on the interests of farmers and working people.

Library of Congress

1904 *Puck* cartoon featuring William Jennings Bryan walking along railroad tracks, following a sign "To Salt River" (on the 1896 free silver dime). He is carrying a gold cross, crown of thorns, bellows and megaphone. He is followed by Arthur Brisbane, James K. Jones, Charles A. Towne, Richard F. Pettigrew and Gardner F. Williams.

Leading up to the presidential election of 1896, Bryan, through his numerous speaking engagements, had kept his name before the public and built a reputation as a champion of the little man. So much so that eventually he acquired the appellation, "the Great Commoner."

Bryan's nonpareil oratorical skills had not come to him by chance. They were the result of a lifetime of practice. As a boy, his mother had him perform dramatic presentations from the McGuffey Readers. Later, he studied with elocution teachers and participated in college debating opportunities. In this way, Bryan perfected his speaking skills. In his *Memoirs*, he wrote that, as a young man, he had "felt the lure" of public speaking and entered every speaking contest available. Observers characterized his speaking skills as "brilliant" and sometimes "breathtaking."

Leading up to the 1896 presidential campaign, Bryan had become recognized by many as the finest orator of his day. Even those who disagreed with him acknowledged the magnificent quality of his voice. Before the invention of the audio amplifier in 1909, the strength of a speaker's voice was one of his most essential tools of his trade. In fact, Bryan's wife told a story of how, in Corpus Christi, Texas in 1898, she had once overheard clearly a conversation he was having with a man three blocks down the street from where they were staying.

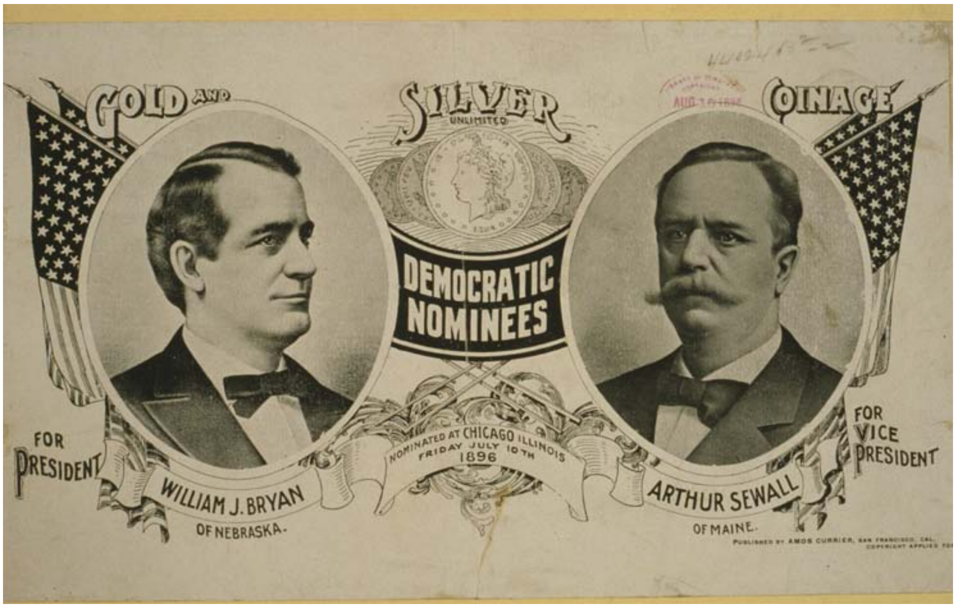
Since recording devices did not exist at the time of the 1896 Democratic convention, only written recollections and impressions of Bryan's voice remain. One observer, for example, characterized his voice as "deep and powerfully musical," a second as "free, bold, picturesque," and a third as "clear as a cathedral bell." In the eventual presidential campaign in which Bryan reputedly gave "3,000 formal speeches," his powerful voice sustained him.

The Democratic Convention of 1896

By the spring of 1896, the nation's economy gave little reason for optimism, and in the six months prior to the convention the silver issue dramatically gained strength. By the convention's opening in July, in the minds of most Democrats, the silver issue "became a metaphor for reform and a cure-all for what ailed America." By this time, a majority of the convention delegates supported some configuration of bimetalism.

With a seating capacity of 20,000 and a floor space of five-and-a-half acres, the Chicago Coliseum was arguably the largest permanent exhibition building in the world. To date, it had managed to accommodate events as large and rambunctious as Buffalo Bill's Wild West Show.

Given the vastness of the physical facility, the Coliseum was a worthy challenge for the lung capacity of the best orators of the day. (In fact, Senator Vilas of Wisconsin had to quit the rostrum when his



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1896 Democratic party nominees William Jennings Bryan for president and Arthur Sewall for vice president.

voice failed.) To compete with the din of a huge audience, speakers had to resort to orator's tricks of the day, such as spreading and raising their arms to expand their lungs and diaphragms to crank up the volume of their voices and moving around the stage to reach different parts of the audience. Even so, beyond the front rows, it could be difficult for some of the audience to make out the finer points of a speaker's address. But Bryan, with his powerful voice, was the master of all the acoustical obstacles of the great coliseum.

In 1896, Grover Cleveland was completing his second presidential term. Though he was not a candidate, he did what he could to support his Bourbon-goldbug faction at the convention. So he dispatched the former navy secretary, William Whitney, with a private, three-car train loaded with gourmet food and wine to lift their spirits. But the gesture mainly illustrated the pecuniary disparity between silverites and Bourbons. (In contrast, with an affinity for frugality, Bryan was to muse after the convention, when checking out of his hotel, that he had only incurred $100 in expenses to win the Democratic nomination.) So bitter was the infighting on every vote in the convention — almost all of which the Bourbons lost — that a goldbug Democrat commented that he was reminded of "the French Revolution."

On the third day of the convention, when the Bourbons insisted on debating the primary issues of the platform on the floor, each side selected speakers to present its views. The silverites, holding sway, took the first and last speaker positions, and three gold bugs filled the remaining slots.

Viewing the last position as the strongest, Bryan persuaded co-silverite Ben Tillman of South Carolina to take the longer, opening debate position. As it turned out, after a disastrous speech from the former secessionist, Tillman, and an overall two hours of rambling, half-heard speeches, the disappointed audience, which had expected more, became restless. Some began to call out for Bryan. His moment had arrived.

William Jennings Bryan, only 36 years old, quickly navigated the stairs leading up to the 20-foot-high rostrum of the Coliseum. After words of deference to the speakers before him, he began, "I come to speak to you in defense of a cause as holy as the cause of liberty — the cause of humanity." Bryan and his followers earnestly believed that this was a fight for the fate of democracy itself. After about 20 minutes of countering the goldbug positions, Bryan drew to his conclusion. Raising his hands to his head, he put his fingers out along his forehead and said, of the goldbugs, "we will answer their demand for a gold standard by saying to them: You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold."

Stepping back, away from the podium, Bryan extended his arms straight out from the sides of his body and held them there for a long moment in a pose that in a flash evoked the crucifixion. The crowd was stunned into silence, and the speaker left the rostrum and walked toward the Nebraska delegation. Then the Coliseum crowd detonated into a raucous celebration about twice as long as the speech itself. Both men and women stood on their chairs and threw their hats in the air, oblivious to where they came down. Two elderly southern delegates embraced one another and wept profusely. A band struck up "For He's a Jolly Good Fellow," and the silverites hoisted Bryan on their shoulders and marched around the Coliseum to the music. Such processions were copied at presidential conventions for years to come.

Contrary to popular belief, Bryan's speech was not impromptu. He had planned it, practiced it and refined it for months, down to the memorable gestures, long before the convention. He had even used the analogies about the crown of thorns and cross of gold in earlier speeches. But the communications of those days being what they were, these figures of speech would not have been familiar to his audience.

In the fourth round of delegate voting that followed Bryan's speech, he went on to win his party's nomination. In Bryan's victory, the "poet-reporter" Edgar Lee Masters — author of the classic *Spoon River Anthology* — saw "the beginning of a changed America." Not since Andrew Jackson, he pointed out, had a major political party sided with the poor.

The Election Outcome and the Firmament of the Gold Standard

In the presidential election of 1896, Bryan received 6.5 million votes, more than any previous presidential candidate. But pro-gold William McKinley rang up 7.1 million votes. McKinley won 23 states and 271 electoral votes, while Bryan won 22 states and 171 electoral votes.

In the last year of his first term, on March 14, 1900, President McKinley signed into law the Gold Standard Act, formally putting the United States on the gold standard on which it had informally been since 1873. The Act made gold the only metal for which paper money could be redeemed and charged the Secretary of the Treasury with » *continued on page 39*

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DIGITAL GOLD

Reinventing Money in the 21st Century

By Nathaniel Popper

The virtual currency Bitcoin is often viewed as a bolt out of the blue — an idea that came fully formed from the mind of its mysterious creator, Satoshi Nakamoto, who first released the idea in 2008. Nathaniel Popper's book, Digital Gold: Bitcoin and the Inside Story of the Misfits and Millionaires Trying to Reinvent Money, *uncovers the true history of Bitcoin, including the many years of experimentation that made the technology possible. Much of the most important work began in the 1990s in an early online community known as the Cypherpunks. The Cypherpunks were concerned about maintaining personal privacy in a digital world. One of the main goals of the Cypherpunks was to create a new kind of digital cash that would not leave a trail of personal details like a traditional credit card statement. These ambitions to create a new digital money led to many experiments that failed at the time but were later harnessed for Bitcoin. This excerpt from* Digital Gold *provides some historical perspective for these Cypherpunk experiments.*

The notion of creating a new kind of money would seem, to many, a rather odd and even pointless endeavor. To most modern people, money is always and everywhere bills and coins issued by countries. The right to mint money is one of the defining powers of a nation, even one as small as the Vatican City or Micronesia.

But that is actually a relatively recent state of affairs. Until the Civil War, a majority of the money in circulation in the United States was issued by private banks, creating a crazy patchwork of competing bills that could become worth nothing if the issuing bank went down. Many countries at that time relied on circulating coins from other countries.

This was the continuation of a much longer state of affairs in which humans engaged in a seemingly ceaseless effort to find better forms of money, trying out gold, shells, stone disks and mulberry bark along the way.

The search for a better form of money has always been about finding a more trustworthy and uniform way of valuing the things around us — a single metric that allows a reliable comparison between the value of a block of wood, an hour of carpentry work and a painting of a forest. As sociologist Nigel Dodd put it, good money is "able to convert qualitative differences between things into quantitative differences that enable them to be exchanged."

In the 1990s, an online community, known as the Cypherpunks, began working on several free-wheeling experiments to create a new kind of money for the digital age. The money imagined by the Cypherpunks looked to take the standardizing character of money to its logical extreme, allowing for a universal money that could be spent anywhere, unlike the constrained national currencies we currently carry around and exchange at each border. As privacy activists, the Cypherpunks also wanted money that would be harder for governments to track than transactions in the existing financial system.

In their efforts to design a new currency, the Cypherpunks were mindful of the characteristics usually found in successful coinage. Good money has generally been durable (imagine a dollar bill printed on tissue paper), portable (imagine a quarter that weighed 20 pounds), divisible (imagine if we had only $100 bills and no coins), uniform (imagine if all dollar bills looked different) and scarce (imagine bills that could be copied by anyone).

But beyond all these qualities, money always required something much less tangible, and that was the faith of the people using it. If a farmer is going to accept a dollar bill for his hard-earned crops, he has to believe that the dollar, even if it is only a green piece of paper, will be worth something in the future. The essential quality of successful money, through time, was not who issued it — or even how

portable or durable it was — but rather the number of people willing to use it.

In the 20th century, the dollar served as the global currency in no small part because most people in the world believed that the United States and its financial system had a better chance of surviving than almost anything else. That explains why people sold their local currency to keep their savings in dollars.

Money's relationship to faith has long turned the individuals who are able to create and protect money into quasi-religious figures. The word "money" comes from the Roman god Juno Moneta, in whose temple coins were minted. In the United States, the governors of the central bank, the Federal Reserve, who are tasked with overseeing the money supply, are treated like oracles of sorts; their pronouncements are scrutinized like the goat entrails of olden days. Fed officials are endowed with a level of power and independence given to almost no other government leaders, and the task of protecting the nation's currency is entrusted to a specially created agency, the Secret Service, that was only later given the additional responsibility of protecting the life of the president.

Perhaps the most famous, if flawed, oracle of the Federal Reserve, former chairman Alan Greenspan, knew that money was something that not only central bankers could create. In a speech in 1996, just as the Cypherpunks were pushing forward with their experiments, Greenspan said that he imagined that the technological revolution could bring back the potential for private money and that it might actually be a good thing:

"We could envisage proposals in the near future for issuers of electronic payment obligations, such as stored-value cards or 'digital cash,' to set up specialized issuing corporations with strong balance sheets and public credit ratings." $

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THE FED'S PATERNITY

By Edward L. Morris

There is a good case for naming either Paul Warburg or Carter Glass the "father" of the Federal Reserve. Through their independent efforts — Warburg's largely between 1906 and 1912 and Glass's between 1912 and 1913 — each was key to the formation of America's only enduring central bank. But they were strange bedfellows and didn't care much for each other — and each was loath to give the other credit for the Fed's creation.

Warburg was part of a prominent German banking family and immigrated to America to join the powerful Wall Street partnership of Kuhn, Loeb & Co. He played an important role in raising money from international investors to finance American business, and was, purportedly, the inspiration for the Daddy Warbucks character in the Little Orphan Annie comic strip.

Paul Warburg (left) and Carter Glass (right) may be considered reluctant co-fathers of the Federal Reserve.

By contrast, Glass was a combative, self-educated Democratic congressman who grew up in the South during the hardscrabble years of Reconstruction. His views were closely aligned with the anti-banking populist William Jennings Bryan; he referred to Wall Street bankers like Warburg as "money devils."

From the time he came to the United States in 1902, Warburg was mystified that the country, on its way to becoming the largest economy in the world, had no institution to provide liquidity and orderliness to its banking system, and, most worrisome, there was no lender of last resort to quell the crescendo of financial panics that plagued the country during the latter half of the 19th century. He used his prominence on Wall Street to sound warnings about the escalating dangers of operating without a central bank, and, in a prescient 1906 speech before the New York Chamber of Commerce, he spoke of a coming financial catastrophe: "I do not like to play the role of Cassandra, but mark what I say. If this condition of affairs is not changed, and changed soon, we will get a panic in this country compared to which those which have preceded it will look like child's play."

Later that year the financial catastrophe Warburg warned of appeared in the form of the Panic of 1907. That panic, like those that preceded it, started small but grew in virulence and quickly spread throughout the banking system until it was finally quelled by the 70-year-old J. Pierpont Morgan. Operating from the library of his midtown home, Morgan acted as a *de facto* central bank for the nation, assembling emergency funding and commitments from other bankers and from the US Treasury Department.

Morgan limited the panic's damage and halted its spread to Wall Street's largest banks, but finally the consequences of operating without a central bank became apparent to many lawmakers, including Republican Nelson Aldrich, the chairman of the Finance Committee of the US Senate. After the harrowing but ultimately successful resolution to the Panic of 1907, Aldrich stated what was increasingly obvious: "Something has got to be done. We

may not always have Pierpont Morgan with us to meet a banking crisis."

As a first step towards reform, Aldrich pushed the passage of the Aldrich-Vreeland Act through Congress in May 1908, with one of its key provisions being the establishment of the National Monetary Commission to study central banking practices in other countries. He also made it a point to meet with Warburg and, after hearing his views on central banking issues, Aldrich invited him to address his commission at a meeting at New York's Metropolitan Club. Although Warburg was a proponent of European-style currency management that allowed for sensible adjustments of the money supply to safeguard the financial system and promote the economy, he did not argue that a US central bank, like those in Europe, needed to operate independently from the federal government. And with the geographic expanse of the country, he suggested setting up a network of central banks rather than a single bank in New York or some other money market city.

Aldrich embraced Warburg's ideas and brought him and a group of leading American financiers to a secret, several day meeting in November of 1910 at the stately Jekyll Island Club off the barrier reefs of Georgia. The purpose of the meeting, where Warburg was a "first among equals," was to structure an American style central bank, and by the time the conferees boarded Aldrich's private railroad car for the return trip from Georgia, the first version of the so-called Aldrich Plan had been created.

The plan envisioned a National Reserve Association that would conduct its business through a string of 15 interconnected banks throughout the United States. Under the Aldrich Plan the governance of the National Reserve would be controlled by a mix of private bankers and government policy makers. The association would, in accordance with Warburg's conception, rediscount commercial paper offered to it by member banks to provide enhanced liquidity and increase the elasticity of the money supply. And it would serve as a fiscal agent for the US Treasury in gathering reserves held at the association's banks in the event a lender of last resort was needed.

In early 1912, a little over a year following the Jekyll Island meeting, Aldrich presented the National Monetary Commission's final report, with the Warburg-inspired Aldrich Plan as its spine. The Aldrich Plan became the Aldrich Bill, but, with none of the three presidential candidates endorsing it, the bill went nowhere in Congress during the 1912 election year. Teddy Roosevelt, who ran under the Bull Moose Party, had earlier expressed support for a central bank and suggested that Warburg would be the ideal person to run it: "Why not give Mr. Warburg the job? He would be the financial boss, and I would be the political boss, and we could run the country together."

But not long after, Roosevelt pulled his support, citing a belated concern that the Aldrich Plan would place the country's currency and credit system in private hands, not subject to effective public control. Even the Republican candidate, Howard Taft, in his unsuccessful run as the incumbent, failed to endorse the plan.

But the most vehement opposition to the Aldrich Bill came from the Democrats. Bryan was a powerful force at the party's stormy 1912 convention, and he viewed central banking as an activity that benefited only the interests of the Eastern banking elite. As a condition for releasing his delegates to Woodrow Wilson, he promoted a plank in the party's platform that stated, "The Democratic Party is opposed to the Aldrich Plan or a central bank."

After Wilson trounced Taft and Roosevelt, with his fellow Democrats gaining firm control of both houses of Congress, it appeared to Warburg that the efforts for bank reform had been for naught. He was certain that the Democrats — belonging to a party, in Warburg's opinion, that was controlled by "a powerful wing wedded to the wildest monetary and banking doctrines" — would let the Unites States operate for the indefinite future without a central bank.

But Warburg was wrong. Glass understood the financial perils the country would face without a central bank and emerged as a champion of a banking reform. He identified the "Siamese twins of disorder" — an inelastic currency and a fractionated reserve system — and believed that, without a central bank, it was just a matter of time until the next financial panic surfaced. (Glass knew the country needed a central bank, but, given his party's well-known position on central banking, he avoided calling it that. Even much later, when writing about the creation of the Federal Reserve, Glass clarified that "wherever the term 'central bank' occurs in this narrative it means a 'central bank of banks' dealing only with the member bank of a system and not a central bank in the European sense, transacting business with the public.")

Glass didn't wait long after the 1912 elections to move on bank reform. He traveled through snow on the day after Christmas, from Lynchburg, Virginia to Wilson's home in Princeton, New Jersey, to present the president-elect with an alternative to the Aldrich Plan. After Wilson gave his approval in principle, Glass went to work in earnest. He received assistance from able committee members and staff, but any tracing of the bill's progress shows Glass pulling the laboring oar. The passage of the Federal Reserve Act (initially the Glass-Owen Bank and Currency Act) was in large part a Glass production with a fairly quick — if sometimes heated — reconciliation achieved between the House and Senate versions. Wilson signed the Act into law in December 1913, almost one year to the day that Glass raised the central bank topic with him.

Glass's legislative accomplishment was remarkable not just for its speed, but for the re-evaluation of the central bank issue he prompted among his fellow Democrats. Perhaps only Glass, with his populist bona fides could have engineered such a policy turnaround. The five-foot-four Glass had long established himself among his fellow Democrats as a self-proclaimed David up against the banking Goliaths. His maiden speech in Congress, in fact, was a denunciation of the 1908 Aldrich-Vreeland Act, and he was steadfast in his opposition to the 1912 Aldrich Plan.

Yet it is hard to refute the notion that much of the final legislation that Glass championed was merely a refashioned Aldrich Plan. The name of the new banking system was changed from the National Reserve as conceived by the Republicans to the Federal Reserve, and the number of reserve banks was reduced from 15 to 12. Furthermore, two of the major differences of substance between the Aldrich Plan and the Federal Reserve Act — the Fed's governance and the backing of the currency — resulted not from Glass's initiatives, but from those of Wilson and Bryan.

Glass, like the Republicans, felt strongly that a board composed *entirely* of government officials and appointees would subject the Federal Reserve to undue political influence. But Bryan, now Secretary of State in Wilson's administration, was still

an important voice on banking in Wilson's cabinet and he argued strenuously that *any* representation from the business community on the Federal Reserve board was inappropriate.

Wilson was eventually brought in as a tie-breaker to make the final decision on the composition of the board. In a meeting convened to win over Wilson's support for a balanced board, Glass summoned prominent members from the American Bankers Association to visit with the president in the White House for the purpose of reinforcing Glass's arguments. Each had his say, with an approving Glass looking on. But at the end of their presentations Wilson asked: "Will one of you gentlemen tell me in what civilized country on the earth there are important government boards of control on which private interests are represented?" There being no effective rejoinder from the bankers, the progressive arm of the Democratic Party carried the day and the Federal Reserve wound up with a board composed entirely of presidential appointees — and with its headquarters in Washington, DC.

Glass and Bryan remained at loggerheads over other issues during the crafting of the Federal Reserve Act, and Wilson was again brought in as a tie-breaker. When Senator Robert Owen, heading the Senate's legislative efforts, sided with Bryan on the matter of a US backing of the currency, as opposed to relying on the inherent security of the proposed Federal Reserve notes, the issue wound up on President Wilson's desk.

Glass believed that Bryan's stance showed a profound lack of understanding about the more than ample safety of the proposed Federal Reserve note, and he pleaded earnestly with the president to withhold his support for formal government backing. Wilson listened attentively to Glass's argument and concurred with his reasoning, but, in a nod to Bryan's intransience on the issue, suggested that the congressman "surrender the shadow but save the substance" by preserving the full faith and credit government guaranty. Glass was not happy on this issue but ultimately agreed to go along with the "innocuous camouflage."

Even with these changes, the Federal Reserve Act still owed much to the structure that Warburg and the Republicans had shaped as the Aldrich Plan. And the gentlemanly Warburg would have likely lived out the rest of his life comfortable in the knowledge that he had made significant, if not widely appreciated, contributions to his adopted country through his early work in the creation of the Federal Reserve.

But in 1927, 14 years after the passage of the Federal Reserve Act, Glass wrote *An Adventure in Constructive Finance*, a memoir that recalled the behind-the-scenes politics required to craft the legislation creating the Federal Reserve System. Glass, who is better known today as one of the two sponsors of the 1933 Glass-Steagall Act, opened his book by stating, "It's not especially important to have it precisely determined who was the author of what is known as the Federal Reserve Act." But in the following chapters of the book he laid out a highly charged argument for himself — or, alternatively, in a polite demurer, for Woodrow Wilson — as the rightful father of the Federal Reserve.

Warburg found it galling to read Glass's rhapsodic and self-aggrandizing account of the Federal Reserve's creation without ascribing any contribution from others. So in rebuttal to Glass's slapdash and hyperbolic *Adventure,* Warburg spent much of the following three years writing a massive and scholarly retort titled, *The Federal Reserve System: Its Origin and Growth.* He created a two-volume tome, with each volume exceeding 800 pages, and there is little doubt what motivated his writing it: "Miss Clio, the Muse of History," Warburg wrote, "is a stubborn lady, entirely devoid of a sense of humor, and once she has made up her mind, it is exasperatingly difficult to alter her verdict. It is inadvisable, therefore, to delay too long the correction of inaccuracies, particularly in cases where silence might fairly be construed as assent."

In Warburg's *Federal Reserve System* he sought to set the record straight. Taking on Glass's assertion that the Act was a one year, Democratic creation, Warburg made a more expansionary case, stating, "In order to be accorded its proper place, the reserve system must be looked upon as a national monument, like the old cathedrals of Europe, which were the work of many generations and of many masters, and are treasured as symbols of national achievement."

Warburg traced the origins of the Federal Reserve to the seminal November 1910 Jekyll Island meeting at which the Aldrich Plan was hatched. Then in a methodical style much like an extended lawyer's brief, Warburg provided a side-by-side comparison of the Aldrich Bill with the Federal Reserve Act. It's doubtful that many readers, then or since, have taken the time to study Warburg's section-by-section analysis, but even a cursory review shows that the bills are remarkably similar.

So who is the rightful father of the Fed? The evidence is strong that the substance of the Federal Reserve Act of 1913 may owe more to Warburg than to Glass. Yet the evidence is equally strong that the Act would not have been passed without Glass's political skills. Perhaps the paternity should be shared, with Warburg the intellectual father of the Federal Reserve and Glass its political father.

President Wilson's actions after the Act's passage would seem to support the shared arrangement. He appointed Warburg as the Fed's first vice chairman — and it is likely that he would have been appointed chairman, but for the requirement at the time that the Secretary of the Treasury serve in that capacity. A few years later, Wilson appointed Glass as his Secretary of the Treasury. The two appointments were not just honoraria, of course, but they no doubt reflected Wilson's recognition of the crucial roles Warburg and Glass played in the Fed's creation. $

Edward L. Morris is professor of finance and former dean of the Plaster School of Business and Entrepreneurship at Lindenwood University. This article has been adapted from his latest book, Wall Streeters, *with the permission of the publisher.*

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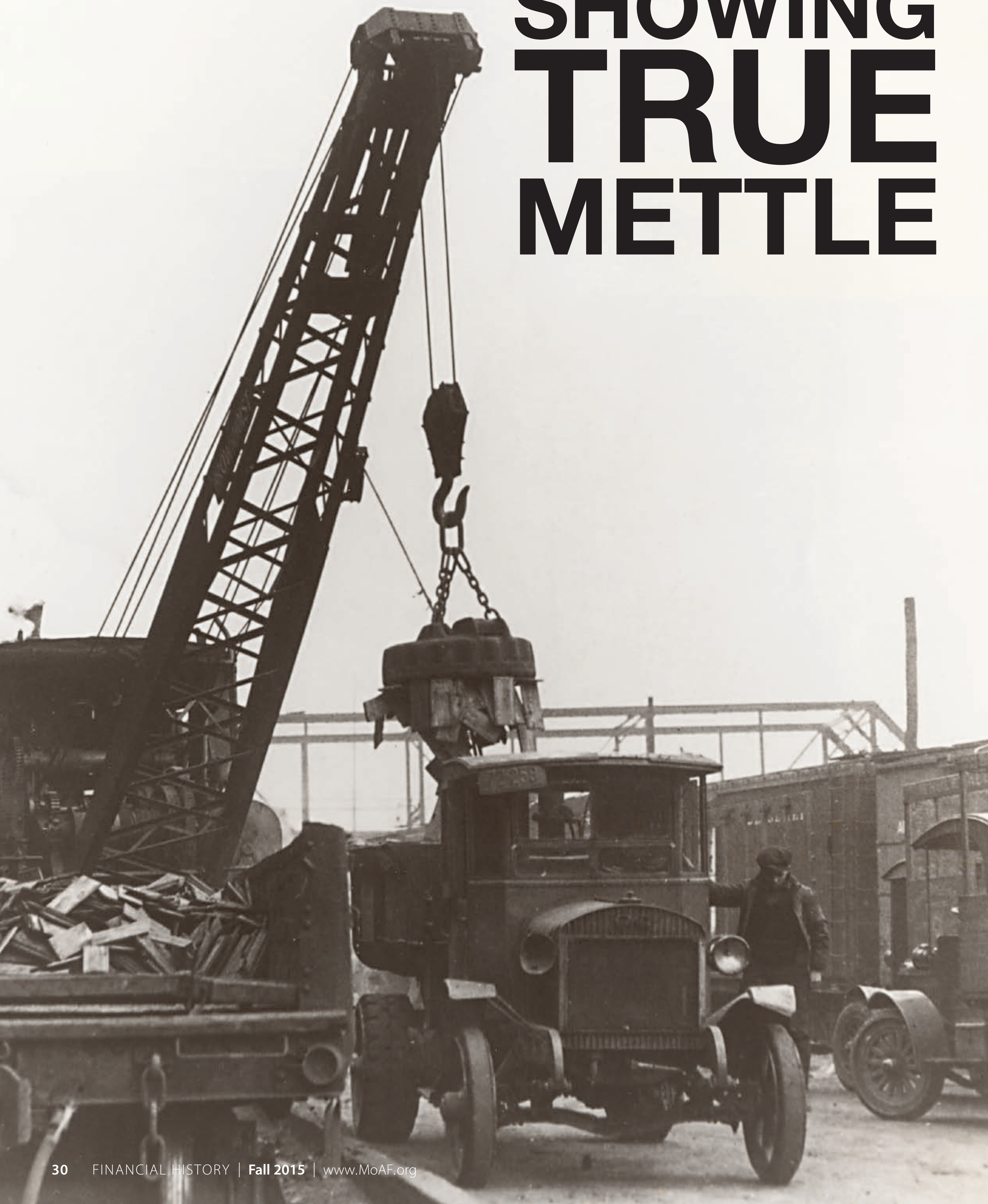
SHOWING TRUE METTLE



Starting as a scrap operator in 1915, Commercial Metals celebrates a century

By Gregory DL Morris

Fallen giants litter the field in the North American iron and steel business. Andrew Carnegie's United States Steel, formed under the hand of JP Morgan in 1901, was the first billion-dollar corporation. It remains the largest integrated steelmaker in the country, but not without struggling mightily. Those same struggles, financial and operational, claimed Bethlehem Steel, at one time the second-largest steelmaker in the country.

Just 10 years after the founding of US Steel, Moses Feldman founded an enterprise of slightly more modest scale: a scrap business in Dallas that came to be Commercial Metals Company (CMC). Feldman, an immigrant from Russia, gradually established himself in the industry, and by the mid-1920s his company was one of the leading secondary metals dealers in the area. Moses ran the business until 1932, when his son, Jacob, took over.

Through the decades CMC grew by expansion and acquisition, eventually integrating downstream to steelmaking and diversifying into some related industries. The company went public on the American Stock Exchange in 1960 and today has 200 facilities in almost two dozen countries.

"Moses was the founder and built the business," said Joseph Alvarado, CMC's chairman of the board, president and CEO. "He did make some mistakes, but Jake got us out of them. I believe he had gone into another business and came back to help his father."

In one of those powerful and resonant stories from the Depression, Alvarado said at one point the bank was moving to foreclose. "Jake went into the bank with the keys, but persuaded them to stick with him and the company. They did, and the company gutted it out through the Depression."

Stanley Rabin, former CEO, had 28 years with CMC, retiring in 2008. "I overlapped a few years with Jake Feldman. He would always relate stories about the Depression; nothing major, just little things to get through a day at a time."

In a small irony, the Depression was not the toughest test for CMC or the scrap industry. Times were tough all over to be sure, but with people selling what they could, it was a buyers' market. Public works and even some big private ventures — such as the Empire State Building, completed in 1930 — kept some demand for steel.

Once the United States entered World War II, the collection and processing of scrap metal became a component of the war effort. Steel mills, metal producers and foundries converted to war production plants making tanks, guns and ships. Americans were instructed to take their scrap metal to their local scrap yard for recycling. CMC operated at full capacity and bought and sold scrap at a rapid pace. The war years presented CMC the opportunity to both make a profit and play a part in the war effort.

Peace brought prosperity in the postwar boom. A small part of that boom was manifest a few hundred miles southwest of Dallas in Seguin, Texas, between San Antonio and Austin. Marvin Selig founded Structural Metals (SMI) there in 1947. It was literally a greenfield operation, built on what had been a cornfield, and started as a rolling mill, rolling rail to produce reinforcing bar, or rebar, the lattice of steel inside large concrete columns.

In 1949, the first rebar was rolled and sold. In three months the company was profitable, and it produced 2,300 tons of rebar in its first year of operation. Customers included steel fabricators, steel supply companies, contractors and the Texas Highway Department. By 1951, SMI had expanded into steel fabrication. It was an important downstream step for a company that would in decades to come be distinguished for its vertical integration. According to Alvarado, Marvin was a visionary.

"He was originally from New York City and worked in a machine shop in his youth. He then served at sea, then got his engineering degree at the University of Texas under the GI Bill," Alvarado said. "He bought cheap land and used equipment. He had a keen sense for buying and building, bordering on genius for both equipment and leadership. He followed his dream."

The relationship between the two companies began as straight business, with CMC supplying Structural Metals with scrap. When times got tight, CMC agreed to equity in lieu of debt and eventually acquired the whole operation, with Selig staying on and the steelmaking operating autonomously.

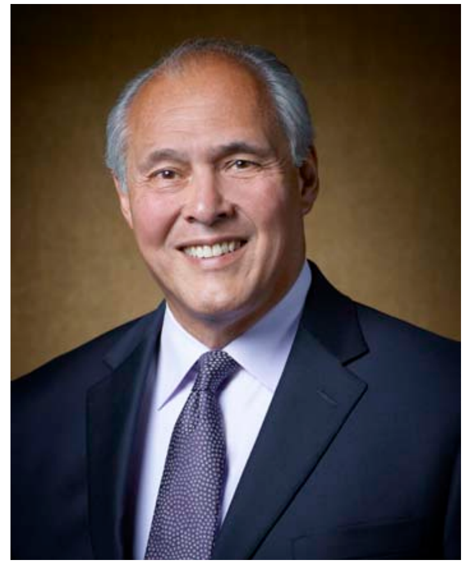
In 1960, CMC became the first secondary metals company to be listed on a major stock exchange, the American Stock Exchange. And in 1963, CMC acquired its initial stake in Structural Metals, marking its entry to steelmaking. The timing was propitious: Structural Metals had just expanded upstream itself from rolling mill to steelmaking, not by building a blast furnace, but by building an electric arc furnace or minimill. It was the minimill revolution, along with legacy costs and labor upheavals, that would doom more than a few steelmakers in North America and worldwide (*see sidebar*).

"The early '60s were a very difficult period for the company," Rabin said. "There were several factors. The Japanese, who had been big buyers for scrap, pulled out, prices dropped; all companies were affected. That became a motivating factor in our vertical integration: to diminish the cyclicality of a commodity business."

Rabin is careful to note that "vertical integration is different than conglomeration [which was very much in favor at that time]. We were adding value and moving closer to the most important markets."

A crane unloading scrap metal from a Model T pick-up truck in the early 1920s. Many scrap dealers in this era still relied on mule-drawn wagons to gather scrap.

Stan Rabin, CEO of CMC from 1979–2006 and chairman of the board from 1999–2008



Joe Alvarado, president & CEO of CMC from 2011–present and chairman of the board from 2013–present

CMC also got into trading, initially to control supply and price of raw materials, but eventually as a business unto itself. "We had markets that smaller dealers could not access," said Rabin. "Logically [and logistically] that grew from scrap into iron ore, copper and aluminum. In our integration we always kept internal pricing at market levels. It was my view that we did not want to subsidize our businesses one over the other. Each had to be profitable on its own."

Clearly that was the case, because in 1970, CMC grew to be listed on the *Fortune* 500. Throughout the 1980s, the company continued vertical integration and growth, adding to its operations in recycling, manufacturing, fabrication and trading. CMC also expanded its downstream presence with the addition of construction-related operations.

To further increase its manufacturing base and expand its geographic presence, CMC acquired Owen Steel in 1994. The largest acquisition to date, the Owen deal also gave CMC a total of six rebar fabrication shops, five structural fabrication shops and two joist plants. Those operations are spread across South Carolina, North Carolina, Florida, Georgia and Virginia. Beyond the manufacturing sites, CMC operates a construction supply company and three scrap-processing facilities.

The chair of Owen Steel, Dorothy Owen, took her share of the payment entirely in CMC stock, making her the company's

From Puddlers to Minimills

The business of steelmaking is a recurring story of entrenched interests resisting change, only to see the industry pass them by. To be fair, it is the heaviest of heavy industries, with huge facilities tying down vast amounts of capital. It was not simply JP Morgan's largesse that made US Steel the first billion-dollar company; it was sheer necessity.

From ancient times through the middle 1800s, steel was made through time- and labor-intensive processes that consumed great amounts of energy and resources for a very limited volume of finished material. That is why steel was reserved for essential tools, including weapons. Industrialized war brought the need for more steel of higher quality than could be made by "puddling," an early industrialized process that was better than its cottage predecessors.

Sir Henry Bessemer is credited with inventing a quantum improvement in steelmaking, a process that still bears his name. Iron, coke (roasted coal) and limestone are melted together in a blast furnace. Then hot air is blasted through the melt. Impurities form a slag on the top of the melt, and steel is tapped from the bottom.

Demand for steel boomed with the Crimean War (1853–56). Timing is everything. The Bessemer process was a vast improvement over previous methods, but it still needed much refinement. One of Bessemer's biggest mills was in Sheffield, to this day a name associated with steel. Not surprisingly, patent battles raged for many years over tweaks and improvements in operations and metallurgy. Also not surprisingly, the puddlers' guild in England was powerful and resisted the new technology.

American Alexander Lyman Holley visited Sheffield and licensed the Bessemer process for steelmaking in the United States just in time for the American Civil War (1861–65). Timing is everything. Holley and his partners improved the process further, building a showpiece furnace and mill in Troy, New York. Andrew Carnegie took note.

The first electric-arc furnace in the United States began operations in 1907 in Syracuse, New York, just six years after Carnegie Steel swept up most of the competition to form US Steel. The electric furnace is much simpler than the blast furnace. Shredded scrap steel is loaded into the furnace, along with flux materials to improve conductivity. The furnace is closed, and graphite electrodes begin to melt the steel. A great deal of power is needed, but the system is much less energy and capital intensive than a blast furnace: capital costs can be as little as 15–25 cents on the dollar for a blast furnace.

As with the Bessemer process, electric furnaces needed much experimentation and refinement. The big integrated steel mills did not so much dismiss the technology out of hand, as relegate it to lesser roles. They stuck with the blast furnaces that represented so much sunk capital.

By the middle of the 1900s, a century after Bessemer, the electric furnace was ready for prime time. Demand from war was not the catalyst this time. Quite to the contrary, it was supply for scrap and lack of demand for steel that allowed the electric furnace to overtake the blast furnace. The rise of global manufacturing and the concurrent decline in US manufacturing meant a slump in domestic steel prices.

General economic decline in the United States meant that plenty of scrap was available, lowering raw material costs for the arc operators. Most of them were new mills — one vanguard was a firm called Nucor — without legacy labor, capital or environmental burdens. Big integrated companies like US Steel and Bethlehem were saddled with huge capital costs, contentious labor relations, heavy pension liabilities and, in many cases, hidebound ideologies.

Today it is not possible to differentiate minimills from integrated companies. The largest electric furnace operators are integrated themselves upstream into scrap and downstream into rolling mills. US Steel and the surviving other legacy steelmakers operate electric furnaces as well as blast furnaces.

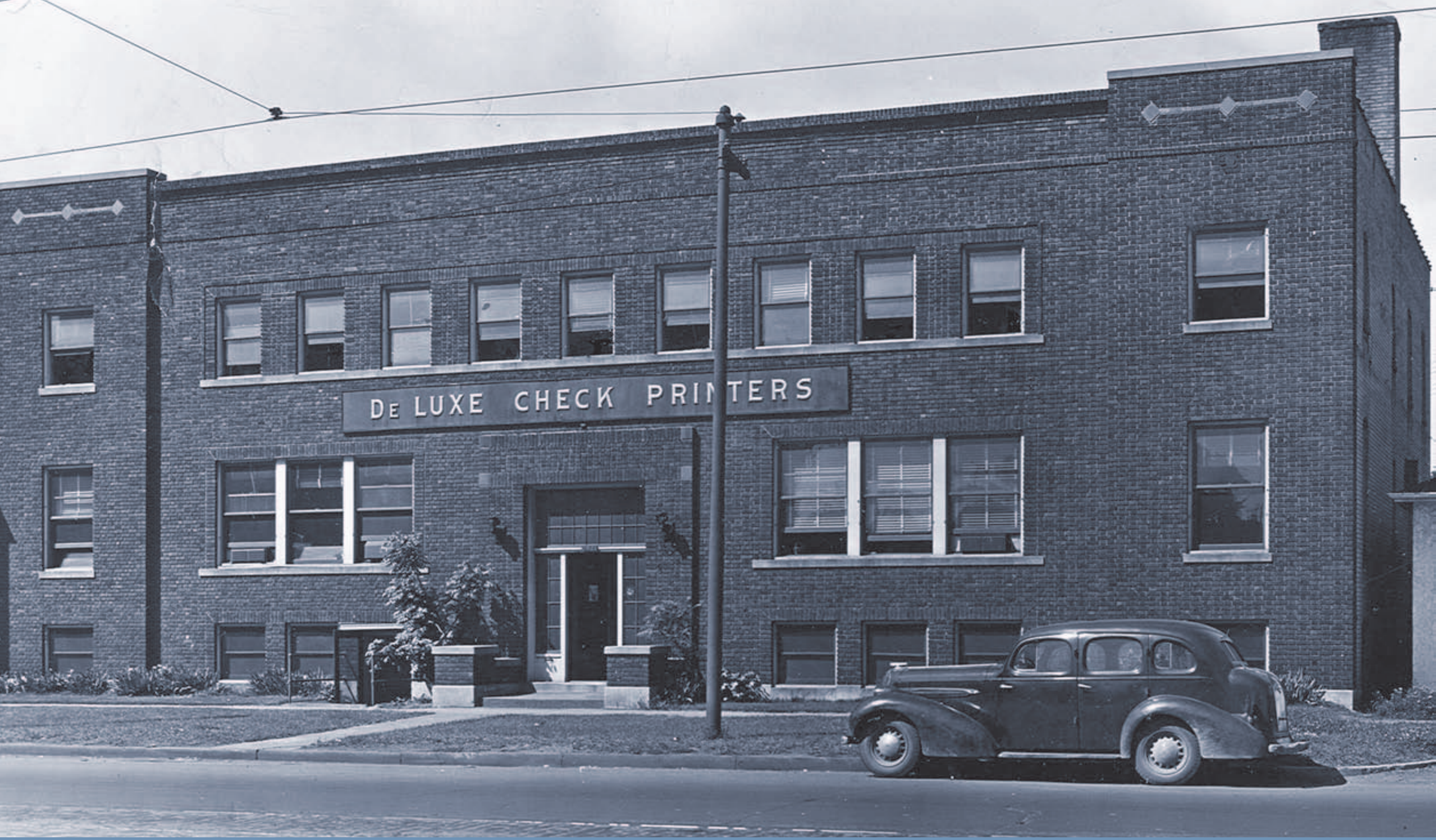
second-largest shareholder after the Feldman family. She served on CMC's board of directors for 16 years. CMC immediately devoted capital investment and in-house expertise to upgrade the mill, which was renamed SMI-Owen Steel (now CMC Steel South Carolina) and achieved profitability by fiscal 1997.

By the turn of the century, CMC owned four steel mills, in Seguin, Texas; Magnolia, Arkansas; Birmingham, Alabama and Columbia, South Carolina. In 2003, CMC purchased a major Polish steel mill in Zawiercie, which is currently the company's largest mill, producing rebar, merchants and wire rod.

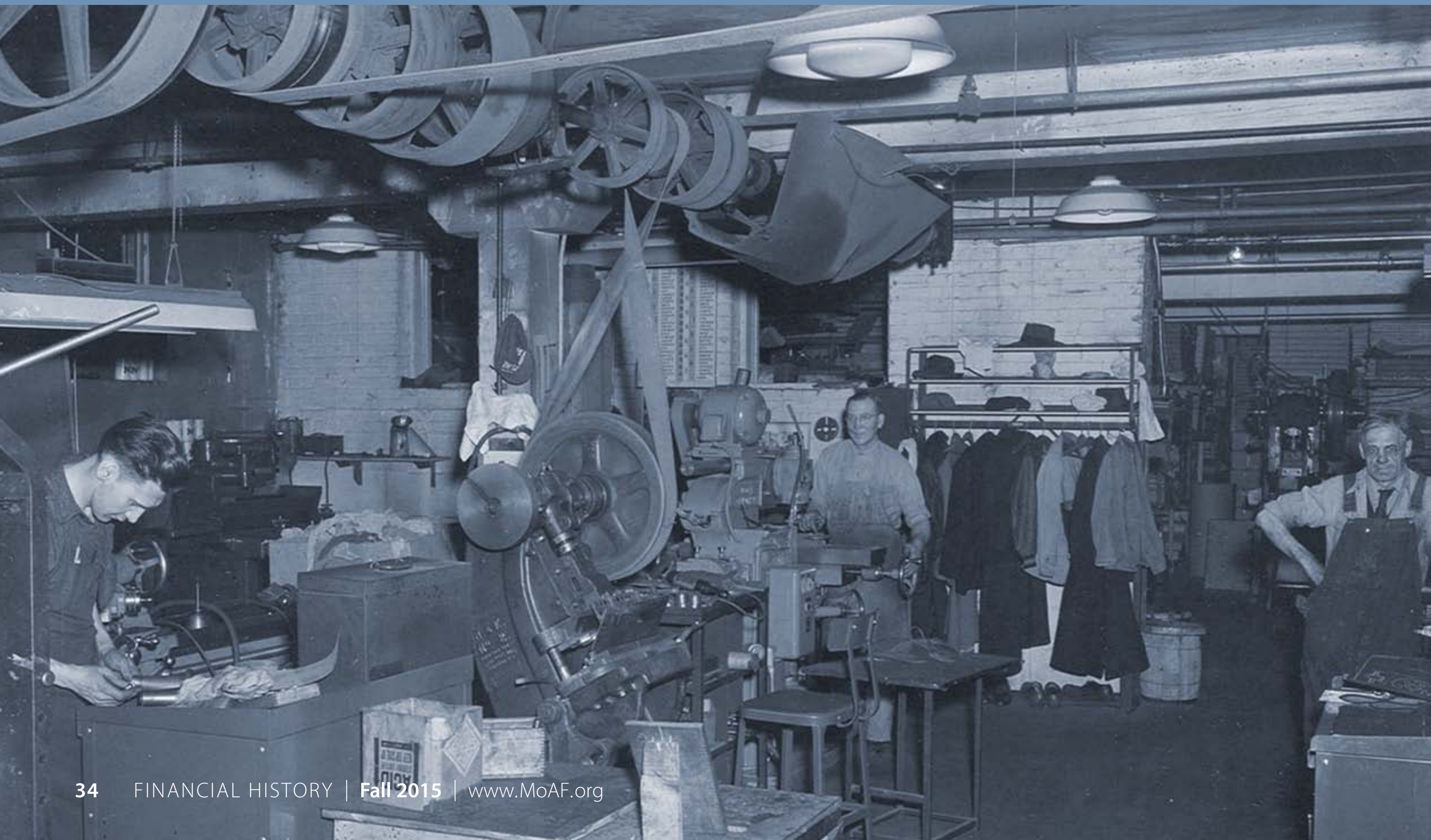
Even as it grows and brings in new operations, CMC seems to be making history, not just steel. "The Polish plant is 112 years old," said Alvarado, "We have been able to celebrate that legacy as well as the history here in North America. Whenever I visit one of our newer operations there is a very strong sense that it is a part of the company, part of the legacy, part of the celebration, even if they just joined recently."

Rabin added, "as we were building a company, were also building a culture of integrity, loyalty and accountability. That might sound like marketing, but we were one of the first public companies to put out a code of conduct. We stated that we were not going to do business in places where we thought ethics were lacking." $

Gregory DL Morris is an independent business journalist, principal of Enterprise & Industry Historic Research (www.enterpriseandindustry.com) and an active member of the Museum's editorial board.



A Deluxe Centennial



By Bart Ward

In 1915, World War I was in full swing, Einstein published his *General Theory of Relativity*, Tesla and Edison were ignored by the Nobel Prize committee, Gandhi returned to India from South Africa, Alexander Graham Bell made the first transcontinental call and Frank Sinatra was born. That same year, William Roy (W.R.) Hotchkiss founded what would become Deluxe Check Printing, in St. Paul, Minnesota.

Checking printing at the time was regional and mostly used by the business community. Some 90% of businesses used checks for payment transactions, with the public using bank counter checks for their personal use. In fact, bank counter checks were often distributed by various banks to stores that then made them available to customers who filled in their names and addresses on the checks where they banked.

When Hotchkiss started his business, America was booming from World War I, and the Federal Reserve Bank of the Ninth District was located in Minneapolis. The Federal Reserve System had been created in 1913 through the Federal Reserve Act, and check clearing was part of the Fed's job as mandated by Congress. According to the *The Federal Reserve System — Purposes and Functions* publication:

> By creating the Federal Reserve System, Congress intended to eliminate the severe financial crises that had periodically swept the nation, especially the sort of financial panic that occurred in 1907. During that episode, payments were disrupted throughout the country because many banks and clearinghouses refused to clear checks drawn on certain other banks, a practice that contributed to the failure of otherwise solvent banks. To address these problems, Congress gave the Federal Reserve System the authority to establish a nationwide check-clearing system.

Deluxe Corporation

Top: Deluxe's original plant in St. Paul, Minnesota. Bottom: Inside Deluxe's printing plant.

The strategic location of Hotchkiss's business to the Federal Reserve bank meant that Minneapolis/St. Paul would become a regional banking center.

Hotchkiss was born on March 21, 1876, in Whitewater, Wisconsin. At 10 years of age, he started working for a local newspaper where he learned printing skills. He would become co-owner of the Dunn County News in Menomonie, Wisconsin — a respected newspaper. After trying his hand at a number of jobs, at age 32 he decided to pursue check printing, a job he had helped a friend with several years prior. With $300 of borrowed money, Hotchkiss set up shop in the People's Bank Building in St. Paul on November 23, 1915.

Checking has a long history, likely dating to the Romans in the fourth century BC. There is some evidence that the Romans used "praescriptiones," which seem to be tied to a credit function, rather than a debit function. A form of a check, known as a "sak," appeared in the ninth century. Saks were used by merchants and could be cashed in various countries. The widespread usage of "depositor notes" really took off in Amsterdam in the 1500s. Depositors would leave their money with Dutch "cashiers," who in return would pay the debts of depositors with the notes.

The word "check" most likely came about in 18th century England, where the first printed checks are attributed to British banker Lawrence Childs in 1762. Around that time, tracking began with the use of serial numbers so people could "check on them." Eventually clearinghouses were set up so that banks could easily provide settlement, without doing each check individually bank by bank.

By the time Hotchkiss set up shop, checking had been institutionalized in the United States. His hard work and noted service policy of "in one day, out the next" would kick start the business. This policy was a commitment to turn mail order checks around in 48 hours. His first big break came in December 1915, from the Adrian State Bank in Southern Minnesota. The order was for 200 pocket checks for 70 cents.

By 1916, Hotchkiss was able to land a number of large Minnesota banks, in addition to small country banks. That October, Einer Swanson joined the company as partner, adding a sales presence to the firm. By 1919, the company relocated to a two-story building in St. Paul. On March 15, 1920, The Deluxe Check Printers, Inc. was incorporated under Minnesota law.

As the end of World War I ushered in a new era of consumer spending, and the Jazz Age and the Roaring '20s came about, Deluxe was in a sweet spot to increase its sales — and it did. In 1923, Hotchkiss invented The Hotchkiss Imprinting Press (HIP). This allowed Deluxe to print three checks on a page. By 1929, the company's revenues grew to $579,000. Hotchkiss stuck to his slogan of "asking for business solely on the basis of quality, service and price, backed by a guarantee of satisfaction."

In the meantime, other newcomers to check printing were starting up. By 1922, Checks Express had been founded, which eventually became part of Clarke American and is Harland Clarke today. Harland was founded by John Harland in 1923 and began printing checks in 1930. Another start-up to enter the industry around that time was the Check Printing Company, started in 1927 in Northeast Portland, Oregon.

At Deluxe, the 1920s were all about expansion. They developed a relatively simple formula that would extend to all of the cities with Federal Reserve banks — all 12 district headquarters. Chicago was the first, followed by Kansas City and Cleveland. In the mid-1920s, Hotchkiss invented the two-way perforator to attach to the HIP, which allowed for "automatically perforated horizontally and vertically at the press instead of in the bindery." Next in line was the Hotchkiss Lithograph Press — a small lithograph press that made the company more efficient when printing checks.

Hotchkiss began to concentrate on inventing and improving printing equipment, in order to make checks and check recording easier and more convenient for the end customer. He invented the "handy pocket check," with a horizontal check register on top of the checkbook, a convenient feature the company marketed to customers. In one of Deluxe's 1920s catalogs, the copy read, "The Individualized Check today is considered almost as necessary in leading social and business circles as the calling or business card. It marks the user as a man of distinction and discrimination."

Deluxe Corporation

Early Deluxe check catalog.

Deluxe Corporation

Deluxe office, circa 1933.

The Crash of 1929 ushered in the Great Depression, which hurt Deluxe along with most other businesses. Deluxe was a private company, so its stock price was not affected by the crash. However, as the 1930s progressed, "Deluxe's vulnerability was directly linked to its bank customers, who were embroiled in the worst banking crisis in the nation's history." Sales declined in 1932–33.

As the company struggled, Hotchkiss solicited his employees' advice, which was highly unusual in corporate America at the time. According to the company's official history, the employees "opted for a six-hour work day…accepted wage reductions (cuts extended to the highest levels of the company, including Hotchkiss's and other officers' salaries)…[and] when Deluxe had problems meeting payroll, Deluxers often agreed to forego a paycheck until banks paid their bills." Deluxe continued on as a mail order house.

Then, in 1932, Hotchkiss hired George W. McSweeney as sales manager. Until then, Deluxe had a one-person sales force; this would change dramatically, as McSweeney was a powerhouse who "proved to be a dynamic, inspirational leader and transformed the company's sales strategy." By 1938, Deluxe employed seven sales representatives who, under McSweeney, were selling a service instead of a product, emphasizing print quality, offering two-day imprinting services and guaranteeing satisfaction along with its "standardized check program."

McSweeney would also cater to smaller clients, as opposed to strictly providing checks to businesses. This process proved to be educational, as banks resisted providing checks to the average person with a small account. This led to the introduction of Deluxe's Personalized Check Program in March 1939, which became a success in short order. McSweeney said at the time, "We seem to have hold of something which is a lot bigger than we first thought, and we are stepping out with the complete program well ahead of any others in the industry." This was all happening on the eve of World War II.

While the war negatively affected many businesses, Deluxe managed to do well. On its 25th anniversary in 1940, sales surpassed the $1 million mark. McSweeney was promoted to president, and the company printed checks for the government's ration banking program. This increased sales by over 30%, and by 1945 company sales were $2.3 million. Hotchkiss by this time was semi-retired, and in September of 1941 he officially retired. He died in 1948 at the age of 72.

After the war, Deluxe established new plants in Kansas City, Chicago and St. Paul. Platemaking and lithography departments were set up in Newark, New Jersey, and Deluxe Cleveland moved into new offices. The use of checks increased substantially from the mid-1940s into the 1950s. By 1949, plans were underway for a new "territorial plant" in Paili, Pennsylvania. From the mid-1950s to 1960, new operations were set up in Indianapolis, Indiana; Dallas, Texas; Chatsworth, California and Detroit, Michigan.

Check usage was swamping the bank check processing systems in use at the time, and a new system called magnetic ink character recognition (MICR) was created in 1959. This was a major innovation in check processing, and Deluxe "emerged as *the* authority on magnetic ink printing, pushed by McSweeney." The company grew substantially during this time, but on July 20, 1962, McSweeney died unexpectedly. According to the company's history, he left a "legacy of monumental contributions to the company. Without him, it is doubtful that Deluxe would have become the leader in the check printing industry."

Joe Rose, a 33-year Deluxe veteran, became president of the company, just in time for major changes in the industry during early 1960s. Credit cards began to take hold, and many predicted the death of checks. Deluxe's New Products Research Division, headed by Gene Olson,

wasted no time in adapting, and by the early- to mid-1960s, Deluxe and its customers realized that MICR could be used for processing many different types of documents.

New Products opened an operation in Roseville, Minnesota as a result of a request to process in excess of "20 million process control documents and loan coupon books." In addition, Olson and his team found ways to use MICR to process savings and withdrawal tickets. By 1967, New Products was selling over $1 million in services and was increasing its commitment to research.

As a result of new postal regulations regarding zip coding and presorting bulk mail, Rose leveraged Deluxe's mail order expertise to pioneer a deal with the US Post Office. The deal allowed Deluxe to set up postal services inside the company so that "mail sacks bypassed local sorting operations, thus eliminating handling by the post office." This helped with postage costs and sped up delivery to clients.

Next, Deluxe created Fashion·Chec covers, which catered to fashion conscious customers who wanted colors, textures and designs on their checkbook covers. Pictorial "Scenic Americana" checks soon followed. These checks increased the company's income margin, and by 1969 sales were over $80 million with income of nearly $8 million.

The country was dealing with inflation, stagnation and gasoline shortages in the 1970s, which also challenged Deluxe. Long a "one-product" company, Deluxe continued to stick to its knitting, opening Southern and Western plants. With three plants opened a year by 1979, Deluxe was running a total of 56 plants. The company began investing in new technology and created a number of new initiatives, such as Operation Easier, Project Prevalidation and the North Star Project, which developed the Deluxe Encoder Printer (DEP). This was an evolutionary process and included Troy Computer Products and Data Card Corp.

By 1976, 64-year-old Rose moved toward retirement. Gene Olson became Deluxe's fourth president and, in 1978, its CEO. Rose needed to talk Olson into taking the job, as he doubted his capability of running the company. However, Olson proved himself to be a good leader and was the first CEO to diversify the company. His first innovation was pre-inked

Deluxe Corporation

Plateroom in the Deluxe Chicago plant.

endorsement stamps, which added $1.4 million to sales.

On April 25, 1980, Deluxe became a public company, as it was listed on the New York Stock Exchange under the ticker symbol DLX. The company was a recognized leader "for its financial performance and its service and product excellence."

As banking was undergoing deregulation, Deluxe was diversifying. By the late 1980s, Deluxe moved into four businesses, bought eight companies and had three organizational units and a new name—Deluxe Corporation. As the 1990s began, the company looked very different from the days when 96% of its business was check printing — which was only five years prior. On the verge of its 75th anniversary in 1990, check printing was down to 69%.

Harold Haverty, president of Deluxe from 1986, continued to diversify the company, acquiring electronic fund transfer company ACH Systems in 1990. In 1991, it bought retail electronic check authorization company Electronic Transaction Corp., which owned "Shared Check Authorization Network (SCAN), an association of retailers nationwide who exchanged information on bad checks and closed customer accounts." Deluxe acquired mail order supplier PaperDirect in 1993 and collections agency National Revenue Corporation the following year.

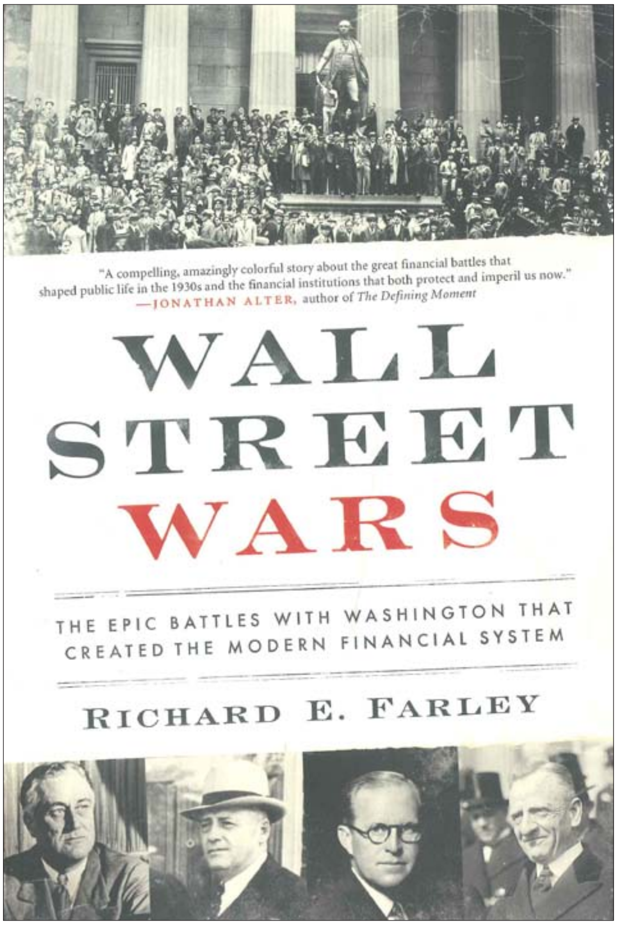
Times got tough in the mid-1990s, as the digestion of its buying spree took a toll on Deluxe's revenues. For the first time, Deluxe went outside the company and hired former AT&T and General Instruments executive John A. "Gus" Blanchard III, in May 1995. Blanchard "moved quickly and decisively to restructure and streamline operations; to identify noncore, underperforming business that should be divested; and to reestablish growth through new products, alliances and acquisitions." By the turn of the century, Blanchard had Deluxe in good shape, as the company helped business clients with Internet technologies and e-commerce solutions.

In 2004, Deluxe acquired New England Business Services, a provider of solutions to small businesses. This would help with Deluxe's new vision statement, which was to "Grow Deluxe by enabling our financial institution and small business customers to be more competitive." Under President and CEO Ronald Eilers, the company believed there was "real potential for growth in the small business market." Deluxe's Small Business Services unit "launched Deluxe Business Advantage program, the fast and easy way for banks to refer small businesses to Deluxe for checks and related products."

The drive for small business and financial institution support yielded a number of service and product initiatives during the next decade. As of 2014, the company had increased its revenue for five consecutive years. CEO Lee Schram noted, "We acquired Wausau Financial Systems and Gift Box to expand opportunities in higher growth marketing solutions and other services. We also continued to accelerate our brand transformation. In addition to our strong print leadership, we continued to invest in our employment brand, in digital technology, in extending our sales channel reach and in our communities. We ended the year [2014] with nearly 4.6 million small business customers of which approximately 25% are marketing solutions and other services customers, and we served approximately 5,600 financial institutions."

The company has come a long way in the past century, thanks to a corporate culture of entrepreneurship, invention and innovation. Over the years, "Deluxe found its niche » *continued on page 39*

Wall Street Wars: The Epic Battles with Washington That Created the Modern Financial System



By Richard E. Farley
Regan Arts, 2015
320 pages, $27.95

In *Wall Street Wars*, Richard E. Farley presents a very readable account of the crafting and passage of four important financial elements of President Franklin D. Roosevelt's New Deal. He does so with separate chapters on The Emergency Banking Act, Glass-Steagall Banking Act and the Securities Act of 1933, as well as the Securities Exchange Act of 1934 and its Securities and Exchange Commission. Direct quotations from contemporaneous speeches, letters and newspaper accounts, some of which take up an entire page, provide the kind of color that is lacking in many other published accounts on this subject.

Historians give FDR much credit for persuading the general public that the bold actions he took in the first week of his administration would indeed restore the crippled banking system he had inherited. After reading Farley's account of the Emergency Banking Act and the text of Roosevelt's fireside chat describing his unprecedented steps to meet the crisis, this reviewer has a new appreciation for that suggestion. The administration's bold plan to counteract the drain on bank deposits by issuing up to $2 billion of emergency currency was greeted with howls of disapproval from many quarters. However, because FDR had convinced the public that their bank deposits would be safe, very little of that supply was needed when the nation's banks re-opened a week after the president had closed them.

Like much New Deal legislation, the follow-up law that would address the banking system's longer-term flaws was not a reflection of any one person's desires, but a complicated compromise containing many disparate ideas. Congressmen, such as Carter Glass and Henry Steagall, had begun investigating the undesirable effects of intermingling the activities of commercial banks and their securities affiliates even before the 1929 stock market crash. And banking reform had been an important plank in the 1932 Democratic Party platform. That year, candidate Roosevelt issued a laundry list of seven reforms of the securities and banking businesses.

As Farley makes clear, however, while the new president sought to incorporate certain principals into laws, he was quite willing to defer to congressional leaders, officials of previous administrations and hand-picked advisers when it came to crafting their final details. Even with little opposition from a chastised banking community, that multi-faceted legislation had to overcome numerous quarrels among House, Senate and administration representatives during its 16-month route through Congress. FDR supported some of Glass-Steagall's final provisions (including the separation of commercial and investment banking), but not others (federal deposit insurance).

The chapters describing new legislation regulating Wall Street feature a different set of behind-the-scenes legislators and advisers. Here too, Farley makes clear that FDR was a compromiser and a pragmatist. He rejected an early attempt to resurrect some ides from another era (1913), but leaned on a veteran of that age to fashion a more appropriate set of rules. Familiar men such as Sam Rayburn, Felix Frankfurter and Joseph Kennedy roam throughout these pages, as do such lesser-known figures as Ferdinand Pecora, Richard Whitney and Duncan Fletcher. Indeed, several dozen legislators, administration officials and outside advisers seem to have had more to do with the final versions of the Securities Act of 1933 and Securities Exchange Act of 1934 than the president.

A closing epilogue briefly notes some subsequent stories of these important laws and the men who crafted them. It leaves unanswered the interested reader's potential question: "And then what happened?" $

Michael A. Martorelli, CFA is a Director at Fairmount Partners in West Conshohocken, Pennsylvania, and a frequent contributor to Financial History. *He earned his MA in History from American Military University.*

A Deluxe Centennial

continued from page 37

in inventiveness to survive and thrive through depressions, recessions, world wars and a technological revolution." Deluxe was built into a first rate American business and is now in the business of building other businesses. $

Bart Ward is CEO of the Investment Advisory firm of Ward & Company, Ltd. Since 1993 he has written the weekly Wall Street history and market-oriented column, "The Corner." He has his degree in history from UCLA.

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Cross of Gold

continued from page 23

maintaining a gold reserve of $150 million in gold coin and bullion.

On April 5, 1933, during his first term as president in the dark days of the Great Depression, Franklin D. Roosevelt dealt a body blow to the gold standard by ordering all gold coins, gold bullion and gold certificates turned into the Federal Reserve at the price of $20.67 per ounce, increased two months later to $35 per ounce. With this tactic, Roosevelt sought to counter the deflation, which he believed was holding back the economy.

Almost four decades later, on August 15, 1971, President Richard Nixon, in an effort to head off a pending international gold run and to combat domestic inflation, announced that the United States would no longer convert dollars to gold at a fixed price. It was the last gasp of American allegiance to the gold standard.

In 1953, a poll of 277 professors of American history or government found William Jennings Bryan's "Cross of Gold" speech to be among the top 50 "most significant" documents in the history of the United States. $

Ron Hunka, a freelance writer who lives in Austin, Texas, has written several articles for Financial History *about notorious frauds, mainly in Texas. Elsewhere, he has published articles about the history of notable castles and monasteries he visited in Germany, Austria, Switzerland and Liechtenstein.*

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HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

TRIVIA QUIZ

By Bob Shabazian

1. Who was Ida May Fuller?

2. What is the Fed Funds Rate?

3. *Forbes* magazine recently ranked the NFL Dallas Cowboys as the world's most valuable sports franchise. What is its estimated value?

4. When did coal production begin in the United States?

5. How is a company's market capitalization determined?

6. What distinguishes a bear market from a market correction?

7. Volatile markets can result in wild swings in the Dow Jones Industrial Average. What was the largest single day point drop in this average? What was the biggest single day percentage loss?

8. The S&P 500 stock index closed above 100 on June 4, 1968. How many years went by before it closed above 1,000?

9. The Federal Reserve System consists of 12 regional banks. Who heads the New York Federal Reserve Bank?

10. The Treasury recently announced it will replace the portrait on the $10 bill with a woman in 2020. Who is currently on the $10 bill?

1. Ida May Fuller received the first social security check, dated January 31, 1940, in the amount of $22.50. **2.** The interest rate that banks charge each other for overnight loans. Now at an historical low near 0%, in the late 1980s it was as high as 20%. **3.** About $4 billion. **4.** In 1748, in the mines around Richmond, Virginia. Coal was used in the production of shot, shells and other war materiel during the Revolutionary War. **5.** By multiplying the price of the stock by the number of shares outstanding. **6.** Generally, if an index or stock falls 10% or more from a recent high, the movement is viewed as a correction. If an index or stock falls 20% or more, it is viewed as a bear market. **7.** On September 29, 2008, the index plummeted 777.68 points. The largest single day percentage loss was 22.61% on October 19, 1987. **8.** 30 years, closing above 1,000 on February 2, 1998. **9.** William C. Dudley. **10.** Alexander Hamilton.

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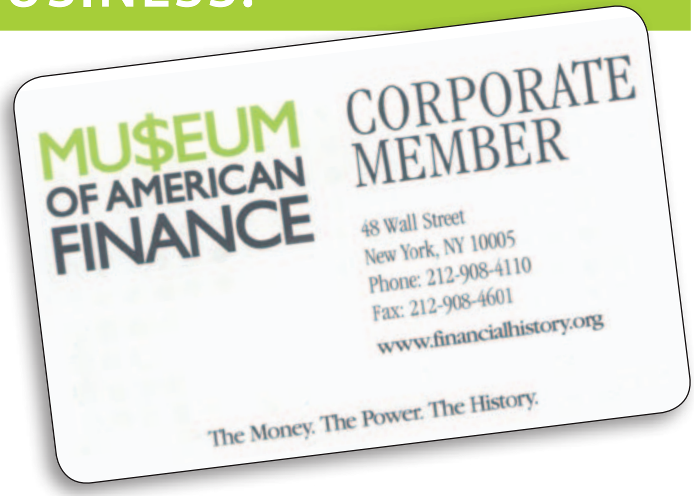

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